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These machine stations are, of course, State property and their services can be rented at rates established by the government. Kolkhozes and peasants enjoy more favorable rates than wealthy peasants. There is some resistance to mechanization on the part of the more conservative

[242] peasants. This resistance is, however, much less than that exercised against entirely new farming methods such as the square-cluster method of seeding corn or the lengthwise and crosswise hoeing.

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As a rule, peasants have to deliver first their compulsory delivery quotas at a low price set by the State. If some produce is left, which may or may not be the case, they can market the rest freely. If and when delivery quotas are not fulfilled, the free marketing of certain products may be forbidden for a time. In 1951 such restrictions were made on meat

[253] and lard. Especially Draconic are the government's measures against "unlawful" slaughtering of domestic animals, for the situation is acute in this branch of agriculture. Government decree No. 250,480 of February 23, 1951 promises five per cent of all the goods confiscated to anyone, official or private citizen, who helps the authorities to discover "black slaughtering."

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The Hungarian peasants either operate their farms individually, which is true in the majority of cases, or they work for a state farm (sovkhos),

or they may belong to a kolkhos. Very infrequently they work for richer peasants. The kolkhozes cover (in 1955) an estimated 18 per cent of the total arable land and approximately 200,000 families are connected with them. 471 241 [474]

Those who work on the kolkhozes are looked down upon by the other peasants, for they do not work on their own, according to time-honored methods, but go to work for a share or a salary and thus have little or no opportunity for individual achievement. [558]

There are numerous beliefs and superstitions connected with agriculture and livestock breeding. To enumerate them would take dozens of pages. Work on the farm and the field fills the peasants life completely; most of his professional know-how comes through tradition and experience, both of which are apt to develop set habits and customs. There are well-defined ways of doing certain agricultural work, for example that of binding wheat into sheaves: this is the way everyone does it and this is how their ancestors did it. It is rather difficult to teach new farming methods to the peasants, although the present regime appears to be making headway. The most important customs are the ones associated with the days of the year: There are auspicious days (mostly saints' days) when one should plant or 241

/86 talk a foreign language? Or imagine, if we have to go to the law courts. It is difficult enough for us to understand in any case, even though the Magyar language is spoken. But we manage somehow. Of course the honourable lawyers always profit. But still, it is not so terrifying as it would be to go to a foreign court. Or suppose for a minute that you, speaking English, have a very important case—something of life and death importance. Let us say you had a rich uncle who became a peasant and left you a cow. And now some distant relative of his also wants the cow. So you go to law. What chance would you have to defend your rights if the law refused to listen to anything except the Magyar language?

So we get scared and angry if they want to take away our language. And then we fight. But we see, after many months, that the other side is just like us. Then we don't want to fight.

000 How did we come to speak about all this? Oh, yes, the harvest-gang has arrived. All sorts of people come. They are very tired. You must understand, they are tired because they have to get accustomed to all kinds of different work. For some weeks they work with the hoe. For some weeks they push handcarts filled with sand for road-building. Then again they hire themselves out to masons or railway-builders.

They are the unskilled labourers. The foremen are angry with them because they are so clumsy. Of course, their bodies are just getting used to pushing handcarts when they have to start working with the heavy 15-pound hammer at building railways. So their muscles are sore, they are clumsy; but they hurry and force themselves to go on. You cannot let yourself be kicked out on the first day when you have hired yourself out for two weeks. If you are lucky, you can make a lot of money. You can, perhaps, return with a whole piglet. You can then feed it somehow, fatten it up. When it is big you can perhaps sell it, buy more piglets, feed them up, sell them with luck. Provided you can manage to feed them, provided they don't get sick and don't perish, provided you have work all this time so that you are not forced to sell too early, you can perhaps make enough money to buy a piece of land somewhere. Then you are a peasant. We all dream of such things, of course, and so we are eager to do all kinds of work. But our bodies, our muscles, are not. They ache.

•471 Among the harvest-gangs there are many such dreamers. They know about distant parts where you can buy land. Because in the country of our lords you cannot buy land everywhere. In most parts you cannot buy even if you have the money. They don't want to sell. They want more land.

The peasants, who are even more eager than we to buy, fret 476
a lot because of this. If we were to have the money, we could go anywhere to buy. Let's say to some distant part where a lord had too many expensive sweethearts in Budapest and has to sell. But the peasants already have some land. They would like to get more next to their piece or in the same neighbourhood. But the lords will not sell. In such parts the peasants have only one 847
child. This is called the "Egyke" custom: the "one-liness". Our peasants learned this from German peasants, to whom our lords sold some land in the south-western part of our country. These peasants have only one child. The rest they "make-away", as they say. They don't want their land to become tinier and tinier bits because of the children. After one child the peasant-women go to the "old one" of the village. This is always a wise old woman. She helps them to "make the child away". The 000
peasant-women in the districts where "one-liness" is a custom are mostly bad-tempered. They nag their men. They have much lust in their bodies. The carryings on in those villages! The luxury! The food! They eat meat every day. They have silk dresses. We are, of course, mostly barefooted. Some of us never have boots on our feet, except when we are in the army. The better off among us have boots. Of course they never wear them for work. If they have to go to the court, or sometimes if they go to the village to church, they proudly carry them on their shoulders, and before arriving in the city or village they put them on. You can save them for your son this way. And it is a proud feeling indeed to leave your son boots which he can put on when he grows up.

Oh, yes. The harvesters are here. Some of us stand about the stables and get acquainted. Others sit in front of the huts and talk. We talk a lot about our own affairs. Who has two hens, whose son has become a gentleman and sends some money home. And so on.

Our conditions have not changed very much since 1867. 566
They were the same before the first big war of our lords, and 511
they are the same now. A serf-servant on our *pusztas* gets twelve to forty *pengœs* a year. This is about ten to thirty shillings in your money. So the cash an average *puszta* family gets a year is never less than ten shillings and never more than thirty. In addition, we get 1200 pounds of wheat, 1000 pounds of rye and 1000 pounds of barley. We have the right to keep poultry about the house, but for every hen we have to give five eggs a year to the estate. We—a family of five or six or seven—are entitled, moreover, to 300 standard square feet of garden and 1600

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FOREWORD

DR GEORGE KEMÉNY has special qualifications for writing on the subject of the Hungarian Three-year Plan of 1947–9. Having taught Economics at the University of Budapest, he joined the editorial staff of the *Pester Lloyd* on its financial side. He thus acquired twenty years' experience of the higher form of financial journalism, and then became Under-Secretary for Finance in the Hungarian Coalition Government from 1945 till 1948, when he left the country for political reasons.

He thus combines the outlook of an economist with direct experience of Government in the years in which the Plan was formed and enacted, and, being now in England, he has written the present work under the auspices of the Royal Institute of International Affairs.

Planning in its many aspects has been very much in the public eye in recent years. In the early years of the Soviet Union the need was felt of some central direction of the various productive enterprises for which the State had assumed the responsibility. It is the essential characteristic of products (whether goods or services) to meet a need, whether it be the need of an individual consumer, the need of a producer for some further process of production, or a need of the community for some common purpose, such as administration or defence. When the State assumes the responsibility for producing, it must decide how its productive resources are to be allocated among all the competing needs: it must decide how much of each product is to be supplied.

The Soviet Union embodied its decisions on these matters in the first Five-year Plan of 1928. The aim was the industrialization of the country, and particularly the development of its war potential through the expansion of the heavy industries. Successive Five-year Plans have followed.

As Dr Kemény points out, the conditions in Hungary in 1947 were different. Some important industries had been nationalized (as they have been in some countries of the West), but the greater part of industry was still in the hands of private enterprise. It was only after the Plan had started that nationalization was extended to include almost the whole of manufacturing industry and wholesale trading.

Therefore, at the outset, the Plan was concerned with producers and traders who were carrying on business on a profit-

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471 making basis. Free competition, as in most countries under post-war conditions, was limited by price controls, rationing, exchange regulations, import restrictions, etc. But within those limitations, each took financial responsibility for his own business.

000 In so far as planning has been applied to the countries of Western Europe, the controls have been relied on to supply the means of putting pressure on producers. Especially supplies of materials have been made conditional on the producers who use them conforming to a policy planned by the Government, for example exporting a prescribed proportion of their output, or limiting supplies of goods classed as superfluities for home consumption. And investment policy has been governed not only through the supplies of materials but through a direct licensing system.

471 In the Hungarian Plan, on the other hand, directly coercive powers were taken. Each producer was obliged under penalties to fulfil his programme and to contribute his quota. And capital programmes were not only subject to licensing but were to a great extent centrally directed.

121 Dr Kemény's study shows how this system worked in the opening period of the Plan, and how it was adapted to the general measure of nationalization adopted in the spring of 1948. He describes the administrative framework of the Plan, its relation to the controls which had been put into operation independently of it, and the expedients resorted to to meet changes of circumstances, and to make good any gaps in the original scheme. He has refrained from any attempt to describe the subsequent Five-year Plan (1950–4) of which the available information was very incomplete.

It is a pleasure to me to have this opportunity of commending a study which I believe to be a substantial contribution to our knowledge of economic conditions in Eastern Europe at the present time and to an understanding of the general problem of the methods of economic planning.

R. G. HAWTREY
Henry Price Professor of International Economics at Chatham House.

June 1951

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CHAPTER I

ECONOMIC AND SOCIAL BACKGROUND

THE purpose of this work is to describe and analyse the meaning of economic planning in Hungary in the years 1947–9 as a typical instance of planning under conditions then prevailing in Eastern Europe. These conditions differ distinctly from those in Soviet Russia on the one hand and from those of planning as understood in Western Europe on the other. That nationalization of industries had been carried out somewhat further in Hungary than in England or France was not the essential difference, but when the Plan came to be adopted in Hungary, it was based on direct coercive powers, such as the Western countries would not resort to for such a purpose. When planning was started in Hungary, the nationalized section consisted of mining, heavy industry, power production, and big banking. To these might be added transport and public utilities, which already before the war had been run by Government agencies or local authorities. Within eight months of the Plan starting, almost the whole of manufacturing industry and the entire wholesale trade were incorporated into public ownership. Even in these later stages of nationalization private enterprise remained important. Besides handicrafts and retail trade, it included agriculture; farm production was carried on in individually-owned peasant holdings numbering some 2 million. Thus the administrative task of the planning authorities was twofold. They had to exercise a direct control in the nationalized sphere and at the same time to regulate private enterprise by elaborate indirect methods of control.

The economy which had to be moulded by the Hungarian Three-year Plan had not only been worn down by German military exploitation, by direct war damage, and by dismantling, but even before the war had been of limited efficiency. In productivity of labour and national income, Hungary, while ranking far behind the nations of Western Europe, made a relatively favourable comparison with the peoples of South-eastern Europe. For 1938 income per head in U.S. dollars was estimated in Hungary at $112, in comparison with $378 in the United Kingdom, $337 in Germany, $236 in France, and $176 in Czechoslovakia, and against $104 in Poland and only $68 in Bulgaria.[1]

[1] U.N., Economic Commission for Europe, *Economic Survey of Europe in 1948* (Geneva, 1949), p. 235.

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Hungary shared the lot of other countries in South-eastern Europe in that surplus agrarian population was a fundamental feature of her economic and social life. The density of agricultural population, as measured by the number of people dependent on agriculture per square kilometre of arable land equivalent, was 63·1 in Hungary against 28·18 in France and 33·9 in Great Britain.[1] As the countries with low areas per cultivator generally also have low yields per acre, agriculture was unable to provide economic employment for a population of that density. The situation was greatly aggravated by the uneven distribution of land. Large units of over 700 acres comprised almost one-third of the whole agricultural area. The big and very big estates—quite a number of them extending to 7,000 acres and more—were the main suppliers of the grain surplus of the country. The preponderance of grain growing implied, however, a relatively low demand for hands per acre cultivated. According to expert opinion the under-employment of the population engaged in agriculture amounted to about 25 per cent.

During the inter-war period industry was able to absorb but a fraction of the excess man-power at the then rate of progress of industrialization. There resulted a constant pressure of supply on the labour market, and an income distribution correspondingly unfavourable to the wage-earners.

Employers in industry took advantage of the low wage-level and of the fact that Hungarian workers readily adapt themselves to industrial work and acquire the technical skill needed in different branches of manufacture. The old-established Hungarian industries, like engineering and food processing, laboured under the disadvantage of having been established to meet the needs of the larger national market which had been secured to them until the disruption of the Habsburg Monarchy. Different branches of engineering had supplied Greater Hungary with railway material, agricultural machinery, and certain kinds of industrial equipment, while food processing industries, in particular, flour mills, had been suppliers of the whole Monarchy. These industries, reluctant to face realities, had to suffer a protracted process of adaptation.

On the other hand new industries, favoured by the change of circumstances, developed. The expansion in the textile, electrical, and chemical industries was the most remarkable. On the whole, the new enterprises recorded good results both in

[1] Wilbert E. Moore, *Economic Demography of Eastern and Southern Europe* (Geneva, League of Nations, 1945), pp. 197–201; the arable land equivalent is calculated according to the following proportions: arable land, 100; orchard and garden lands, 300; meadows, 40; and pastures, 20.

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technical quality and in commercial organization. But they were growing in an atmosphere of protectionism, intensified in the thirties by a system of exchange regulations and import quotas, and they became dependent, with few exceptions, on a narrow national market. Consequently the competitive spirit was alien to the Hungarian entrepreneur. He did not naturally think of extending markets by reducing costs and prices, and was rather monopolistically minded, bent on securing profits by charging high prices. Thus the tendency, then prevailing internationally, of industrial and agricultural prices to diverge to the disadvantage of the latter, had been accentuated. These developments furthered industrial expansion, enabling industrialists to extend their capital by ploughing back considerable profits. In the absence of a capital market this was virtually the only way of financing. High industrial profits, however, caused discord, sharpened antagonism between the different classes of society, and made industry and industrial capitalism unpopular.

Industrial development implied decreasing imports of finished products. But Hungarian industry was, as it still is, largely dependent on imported raw materials, particularly on imports of timber, metals, and cotton. Industrial production cannot be carried on unless the necessary materials can be paid for by exports. The exports had, moreover, to cover the deficit in the invisible items of the balance of payments. On the average of the period 1933–7, 44 per cent of the total imports consisted of raw materials, 29 per cent of semi-finished products, and 27 per cent of wholly manufactured goods. Of exports, roughly 60 per cent were unprocessed food—wheat, cattle, pigs, poultry—and raw materials, 10 per cent semi-finished products, and 30 per cent manufactured articles. During the period in question exports amounted to about 12 to 13 per cent of total national production.

The productive capacity of Hungarian industry was enlarged between 1938 and 1943 by the launching of a public investment programme. Yet the consumptive power of the country was not extended: it was, in fact, contracted by the steadily increasing inflation. The expansion of industry during these years was, of course, part of the effort of rearmament, and was also intended to feed the insatiable appetite of the Third Reich.

The war made inroads on the country's enlarged industrial capacity through bombing, through damage inflicted during the campaign of 1944–5, and through Russian dismantling in the first phase of the occupation. It was not capacity, however, which set limits to production after the end of the war. The decisive limitation was the lack of coal and raw materials along

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CHAPTER II

THE ANTECEDENTS OF PLANNING

THE ECONOMIC FRAMEWORK

THE shaping of the post-war policies of Hungary goes back to the time of German occupation. It was in the underground Resistance movement, where three parties co-operated, that the first outlines of a programme were drawn up. The co-operating parties were the Smallholders, the Social-Democrats, and the Communists. By the end of 1944, when the Germans had been expelled from the Eastern half of the country, the National Independence Front was set up, consisting of the three parties in the Resistance movement, the newly emerged National Peasant Party, the Democratic Party, and of representatives of the Free trade unions. The main lines of policy were laid down in a Programme of the National Independence Front issued in December 1944. This statement of policy expresses adherence to democratic principles, and affirms the reorientation of foreign policy. In the social and economic field the outstanding points were: land reform, public control over industrial monopolies, and prevention of unemployment. One clause of the Programme points, though cautiously, towards economic planning in claiming that reconstruction should be effected within the framework of a Government-sponsored plan.

The National Independence Front formed the provisional Government in December 1944 and public administration was reorganized through the local branches of the Front. Following the general elections in November 1945 a coalition consisting of four parties, the Smallholders, the National Peasant Party, the Social-Democrats, and the Communists, was established. This coalition, surviving the elections of August 1947, was the basis of the successive Cabinets until the first quarter of 1948.

In accordance with the Programme of the National Independence Front, in agriculture the big and medium-sized estates were divided into small holdings, in industry such branches as were monopolistic in character were nationalized. Even at the time, when the whole range of light industries and engineering, except for two big concerns, wholesale trade, and naturally the retail trade and small-scale industry, were still left in the hands of private enterprise, State interference and State influence were far-reaching. Not only was the character of a war economy

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maintained, but, as a result of reparations, the Government continued to be the greatest customer of industry. Hungary's economy, moreover, was directly affected by the growing influence of the Soviet Union, whose claim to take possession of all former German property in the country had been recognized at Potsdam. Owing to the decision taken at Potsdam, and the extremely arbitrary interpretation of the agreement by the Russian occupation authorities, Moscow obtained a foothold in Hungarian banking, insurance, Danubian navigation, and coal mining, as well as in numerous engineering, chemical, and textile enterprises. Her influence was further strengthened by an agreement to set up joint Russian-Hungarian companies. This was signed early in 1946, and, when subsequently implemented, secured to the Soviet Union a practical monopoly of air and river traffic and of aluminium production.

Private enterprise was naturally confronted with fundamentally changed political conditions. Up to 1945 the semi-feudal structure of society, with the great landlords in control and with industrial and financial interests exercising a strong influence on the course of economic policy, had not entirely vanished, though since the thirties, this influence had been undermined by the growing pressure of the demagogic petty-bourgeois supporters of fascism. As from 1945, however, with the old landowner class disappearing as an economic and political factor, there was a complete shift of the centre of gravity in politics.

Although in 1946–7 indications were not lacking as to whither the road might lead, it did not yet seem definitely decided that everything having affinity with the Western pattern of life was to be suppressed in Hungary. The country was governed by a coalition based on democratic elections. Communist influence was, of course, stronger than was justified by the numerical importance of the party, for the party enjoyed the support of the occupying Power. At the outset, however, the Communists were not altogether uncooperative. Only in the spring of 1947, when the first so-called conspiracy was discovered, did they reveal what methods they were ready to employ to reduce the role of their partners within the coalition to a sham.

Once the agrarian reform of 1945 was adopted, the Communist leaders gave repeated assurances that the private ownership of land would thenceforth be respected. The peasants spared no effort to produce maximum results, despite conditions unfavourable for regular farmwork. The industrialists also appeared ready to play their part in reconstruction, and were

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CHAPTER III

INDUSTRIALIZATION AND ECONOMIC NATIONALISM AS RULING IDEAS

THE fundamental conception of the Three-year Plan of 1947 was to secure State control over the economic life of the country. It reflected a collectivist view, that the uses of the scarce resources of a shattered economy have to be co-ordinated by a central authority, so as to speed up reconstruction for the benefit of the community. The Plan was drawn up on the assumption that the investments required by it must be financed from domestic resources. The possibility of Hungary's participation in Marshall aid had already been blocked by Russia's decision when the Plan started. Thus the only source from which the assistance of Western capital could have been hoped for was excluded. If substantial amounts of capital expenditure were to be extracted from an economy with an extremely low income level, measures amounting to compulsion were needed to ensure the requisite saving.

The economic basis of the Plan when put into operation was a mixed system of private and public ownership in industry.[1] Direct public control was then extended only to monopolistic industries. The Plan accordingly provided for fitting private enterprise activities into its framework. A further extension of public ownership was not implicit in the Plan. Later it was claimed that its execution required the nationalization of the whole of large-scale and medium industry and of wholesale trade, but it is a matter of opinion whether the extension of State ownership on this wide scale or in a lesser degree was essential to secure a smooth working of the Plan. The decision to incorporate those branches of the economy into the publicly-owned section did not result from any investigation of economic expediency; it was taken in the political sphere. The requirements of effective planning supplied a convenient argument in support of resolutions already taken.

Retrospectively the Plan might easily appear as a scheme for extending heavy industrial potential and thereby serving Russian interests, its achievements in any other field being concomitants only of this dominant objective. In its later stage, when investment rose much above the anticipated level, the

[1] See below, p. 22.

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185 society still mainly agricultural in structure into one highly industrialized.

● 471 At the time when the Three-year Plan was conceived and started, the structure of Hungarian industry was by and large 655 similar to that of any Western country which had nationalized former private monopolies. Important steps had been taken during the preceding period towards shaping this structure. Coal mining was nationalized in January 1946, heavy industry —metallurgy and the two leading engineering concerns with their subsidiaries—by the end of that year. The nationalization of the electric power stations was enacted in 1946 and that of long-distance power lines early in 1947. That private monopolies were to be superseded by public control was a principle supported by all the parties participating in the Government. It had, in particular, the endorsement of the Smallholders' Party, which then held the majority within the governing coalition. This party favoured private ownership except of capitalistic monopolies.

The decision to take over the big banks into public ownership was in line too with the principle of nationalizing monopolies. Five leading banks controlled about 80 per cent of the whole banking business, and, through a system of ramified participation, commanded considerable influence in industry. Although the law on bank nationalization, including that of the National Bank, was passed only late in 1947, State control was virtually introduced in June of that year, that is, before the start of the Plan. In mining and industry the nationalized portion was run on the principle of rigid centralization. The former independent enterprises in coal mining on the one hand and in heavy industry on the other were placed under central administrative bodies. In banking a more indirect method was chosen. A Board was set up for the co-ordination of activities.

In 1947, when Hungary embarked on planned economy, the publicly-owned section comprised almost the whole of mining, approximately 35 per cent of manufactures, 80 per cent of banking, and the whole of rail and river communications. State-ownership of railways and river shipping had existed before the war. In reviewing the relative importance of private and public enterprise, the head of the National Planning Department stated that the share of the latter in national net production averaged 35 per cent in the course of 1947–8, reaching 43 per cent by the end of this period. This statement, in view of the radical changes in the ownership of industry in spring 1948, implied that at the inception of the Plan the share of the publicly-owned section in national production was less than one-third. It was understood then in political circles that

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the economic functions acquired so far by the Government, combined with the power to control credit, investment, raw-material allocations, prices, and wages, would suffice to give effect to the Plan without further measures of nationalization. There is evidence that even the leaders of the Communist Party shared this opinion for the practical reason, if not for any other, that further nationalization could not be coped with by the bureaucratic apparatus.

In post-war Hungary, naturally enough for an economy of shortage, war-time controls were maintained.[1] Beyond that, as soon as the monetary reform had been accomplished, certain steps pointing towards a planned economy were taken.

In view of the extremely low capital resources, the authorities decided to introduce a system of credit rationing. An inter-departmental committee was set up under the auspices of the Ministry of Finance to decide the allocation of credit, in co-operation with representatives of the National Bank. The task of this committee was to make the amounts of credit granted conform to the ceiling prescribed for the issue of bank-notes. The ceiling for the note circulation was from time to time fixed by the Supreme Economic Council. Lendings of the National Bank were completely, those of the commercial banks partly, subject to the decisions of the committee. These decisions were guided by the prevailing opinion, based on general economic considerations, as to the urgency of the credit. To mitigate the rigidity of the system, a certain percentage (though gradually decreasing) of the resources of the commercial banks could be lent without central control.

Another agency which was in a position to supplant the mechanism of the market was the Raw Materials Board. The Board, in virtue of its authority to decide on the allocation of fuel and raw materials, whether they were home produced or imported, exercised wide powers of tightening control. However, the manner in which the Board used its powers did not amount to systematic planning.

The idea of the introduction of planned economy first began to take shape at the end of 1946. Communists and Socialists did not confine themselves to advocating the idea. Both parties produced draft plans, making use of expert advice, with the aid of departmental staffs placed at their disposal. The Communists asked, of course, an expert from Russia for assistance, while the Social-Democrats profited by the expert knowledge of an economist of Western outlook.[2]

[1] See p. 13.

[2] The expert of the Communist Party was E. Varga, that of the Social-Democratic Party, Nicholas Káldor.

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The Socialist Plan chose the needs of the population as a starting point and looked towards the re-establishment of the pre-war level of consumption for the working population. The aim at the same time was to bring about certain structural changes in the economy, in order to lay a foundation for successive plans of general economic expansion. In order to realize the objectives of the Plan, it was deemed necessary to develop key industries, which would provide a basis for the extension of consumer-goods industries and for the mechanization of agriculture.

To this end, the Plan determined which industries should be assigned priority for extension. Technical experts were then invited to reconcile the objectives set with existing industrial capacity, and to determine the capital investment and manpower required to fulfil the production programme. As to the methods of financing the investment planned, the idea was that the nationalized concerns should be financed by the Government, while capital for private industry was mainly to be provided by the private concerns. It was, however, suggested that the Government should also, if necessary, finance private investment.

Whether financed by the Government or from private resources, investments were to be carried out within the framework of the Plan. Arrangements between the Government and industrial groups were supposed to regulate the scale and direction of investment, thus excluding capital expenditure not conforming with the Plan. These arrangements were at the same time to provide for carrying through certain measures of rationalization on the part of the industries.

Regarding the supply of imported raw materials, the Plan presupposed that exports even at a minimum could pay for the quantities required. It was calculated that, besides these raw materials and a moderate amount of finished goods, industrial equipment to a value of roughly 2,000 million forint was to be imported in order to fulfil the investment programme over three years. It was suggested that the imports of equipment should be financed by foreign loans. Hopes were expressed that the amount mentioned would represent the maximum of foreign-loan requirements, as it was assumed that the speeding up of production by the Plan could provide for exports on a scale covering also some part of imports of industrial equipment. At that time Marshall aid had not yet been either offered or refused. The official Government Plan was drawn up from the elements included in the draft-plans of the Social-Democratic and the Communist Parties, though in some fundamental questions with more concessions to the Communists. It was possible

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to merge the two drafts without great difficulties as the Communist Plan was also adapted in its structure to the system of mixed economy.

The Socialist Plan included gross capital outlay of roughly 6,700 million forint. Replacements being some 1,600 million, the net capital outlay would be 5,100 million. The Government Plan, following rather the Communist Plan, included a net capital outlay of 6,585 million, but did not reckon in its estimates with the burden loaded on the national income by the necessity of accumulating stocks. The Socialist Plan laid less emphasis on heavy industry and contemplated a more rapid extension of light industry than the Government Plan.

Besides capital outlay the Socialist Plan estimated that the other form of capital formation, the replenishment and extension of stocks, would need 6,500 million. Towards the total not investment of 11,600 million, it was hoped that about 2,000 million would be financed by foreign loans, leaving about 9,600 million to be raised at home.

The Government Plan looked forward to a more considerable improvement in the productivity of labour than the Socialist Plan, and therefore did not reckon on so great an increase in numbers employed.

LEGAL POWERS TO ENFORCE THE PLAN

It was by the Act of July 1947 for the Implementation of the Three-year Plan that economic planning as from 1 August of that year was introduced in Hungary. The six clauses of the Act ordered amongst other things: 'Every Hungarian national in Hungary and every foreign national having a working permit in Hungary shall be required by the Government, within the limits of the decrees issued on the basis of the present Act, to carry the Plan into effect'. Clause III authorized the Government to establish a Planning Board and a National Planning Department for the elaboration of the Plan and for controlling the work of carrying it into effect. It may be mentioned that the Planning Board never acquired a leading role. It was but an inter-departmental advisory body.[1] The power of decision was vested in the Supreme Economic Council, and the National Planning Department wielded the executive power. The Government also were empowered to determine by decree the penalties for any breach of the regulations issued in pursuance of the Plan. Jurisdiction over such offences was given to a special court with accelerated procedure.

[1] See Chapter IX.

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471 454 The first decree issued by virtue of the authority given in August 1947 required enterprises to conduct their business in accordance with specific plans approved by the National Planning Department. These plans were to be set up by the leading executives for the purpose of being submitted to the Planning Department and to the competent Ministry. The obligation to prepare and submit specific plans in pursuance of the National Economic Plan was generally imposed on industrial enterprises above the level of small-scale industries—employing at least [illegible] workers—on all enterprises incorporated as public or [illegible] limited companies, and without exception, on publicly-[illegible] concerns. The classes of enterprise above mentioned were bound to keep in line with their individual production quotas and capital programmes. Consequently they had to ask for a permit from the National Planning Department before carrying out the slightest capital outlay not included in their plan as approved beforehand. For others (agriculture, commerce, small-scale industry, etc.) capital outlay up to 200,000 forint—equalling about £4,000—was allowed to be carried out without special authorization. Thus a partial investment control was established even in branches of production not directly subject 687 to the Plan. Any responsible person infringing those enactments committed, according to the decree, an offence liable to a penalty of up to one year's imprisonment.

It was found before long that the decree published in August did not cover the whole range of activities to be controlled by the planners. It had no special bearing on agriculture. In November a new edict under the Act, superseding the extremely vague definition of offences, was issued. The definition of offences against the Plan became, according to this second decree, much more specific. They were defined thus:

(1) Any divergence from the directives given by the authorities regarding the quantity or quality of production or the combination of factors; (2) the conversion or destruction of goods (including producer goods) in violation of the standards of prudent management; (3) concealment of any stores and stocks so as to withhold them from the use required by the Plan; (4) the alienation or acquisition of goods against the rules in force; (5) the use of capital, whether owned or borrowed, for purposes not covered by the specific plan approved for the enterprise concerned; (6) the absence of a system of book-keeping enabling authorities to determine whether the enterprise is conducted according to the Plan.

In contrast with the former decree, offences against the Plan were now in principle qualified as a more serious class of crime,

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power: production was to be doubled, whereas man-power was to increase by only 30 per cent. That presupposed an improvement of fully 50 per cent in productivity per head.

The Plan at its inception did not prescribe any specific measures for improving productivity, but it was assumed that a steadier flow of raw materials, the improvement of equipment, together with further progress in the extension of piece-work, would have the desired effect. When the Plan was half-way through, a drive for further productivity was resorted to, but with indifferent success (see pp. 87–96).

PLANNING INDUSTRIAL PRODUCTION

During the first months of the Plan period the central organ for planning was preoccupied with planning its own organization. According to a decree issued early in September 1947 a representative of the Planning Department was to be installed in each plant (above a certain size), and in each institution or office of importance. The setting up of a network of representatives dragged on for months, and meanwhile a lack of co-ordination in the activities of the different agencies prevailed. However, by the end of the first Plan year the number of Plan controllers attained some 3,000. Their duty was to supervise industrial and agricultural production.

The methods of putting the Plan into force in the nationalized concerns were different from those applied to the privately-owned enterprises. Heavy industry presents an example of the procedure in the former.

As from the end of 1946, iron and steel production, and also about 70 per cent of the heavy machine industry including electrical engineering, were brought under a central management. The new formation under direct Government control united three former private concerns and the previously State-owned Iron and Engineering Works. As soon as the introduction of planned economy had been decided, the management were told to prepare a plan covering their field of activity. It was understood from the outset that this draft plan should secure full utilization of the capital equipment, and in certain sections of production an extension of capacity. Directions as to which parts should receive this extension were at first uncertain. At a later stage of the preparatory work it was determined that the provision of additional capacity for the production of Diesel motors, and for the equipment of power stations and long-distance power lines,[1] should take first place.

[1] The expansion of capacity for electrical engineering was in accordance with the intention to develop a new network of power stations.

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433 For the plan to be submitted to the authorities the order
● 471 books were used as a basis. At that time existing orders represented about eight months' output. These orders, in so far as they were from the Government, had already been placed with a view to the needs of reconstruction and the purposes of the plan. It was assumed that for the remaining four months' period sufficient further orders would flow in to keep the industry fully employed. In this way a production programme for a whole year was drawn up, naturally taking account of requirements for plant expansion within the concern. For the following two years no detailed plans were demanded, only suggestions on broad outlines.

495 The changes made in the draft plan, before it was incorporated into the general plan, were inconsiderable except for one point. The amount of investment proposed in heavy industry was curtailed, without changing estimates of production, on the assumption that existing plants could be more intensely exploited than the management had calculated on.

In the planning of the output of capital goods there were remarkable gaps. The programme for the equipment of the publicly-owned industries, which was drawn up in detail, was important, comprising as it did mining, iron and steel works, the greatest part of heavy industry, railways, and other communications. But the requirements of private enterprise, except those already on the order books, were not elaborated. The figures set out for investment in the different branches of light industry were not substantiated by specification of the types of equipment needed by individual enterprises, so that, at least up to mid-1948, a certain part of heavy-industry production was not really planned. The section of its capacity engaged in production of equipment for light industries worked on the basis of orders received, which usually resulted from special urgency or from pressure exerted by authorities particularly interested in the development of the plant concerned.

Under the circumstances prevailing no system of economy, whether centrally planned or not, could avoid at least so much planning as was required to set up a scale of priorities according to the urgency of needs for reconstruction and for other purposes.

In the case of heavy industry the main task of the planners evidently consisted in co-ordinating work on orders from the Government. There was quite a number of first priorities: reparations, reconstruction of railways and bridges, re-equipping of mining and heavy industry run by the Government. The point at which economic planning came in was in deciding

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whether and to what extent an extension of heavy industry beyond that required for covering the urgent needs of reconstruction and re-equipment should be initiated.

As shown by numerous complaints, planning failed to synchronize the manufacturing of producers' goods with investment. To secure deliveries in due time and of the quality required, the Ministry of Industry prescribed a formula for contracts, stipulating penalties for delays or other failures in deliveries. The significance of this measure faded as soon as any delay could be qualified as sabotage of the Plan under the decree issued in November 1947.

Of the application of the Plan to private enterprise, the methods employed in the rubber industry may be taken as more or less typical. Preparatory work was done by the competent section of the Ministry of Industry in collaboration with a few selected executives and the workers' representatives of the enterprises concerned. Estimates of production were mostly drawn up for classes of commodities, not for specified articles. The representatives of private enterprise were unwilling to give estimates in detail or to commit themselves accordingly, for they hoped to retain freedom to change from one product to another whenever difficulties of production or of sale called for a switch-over. They also endeavoured to keep estimates of output as low as possible so as to forestall troubles which might arise if they failed to reach the quota. By this method of budgeting the road was cleared for surpassing the production programme set up by the Plan.

Thus the production schedule for light industry did not present a cut and dried programme by which the executives of the enterprises could be guided and which they were bound to observe. This vagueness, which was to a certain extent deliberate, secured a considerable degree of flexibility, a quality not altogether disadvantageous for a general economic plan.

Within the group of consumer-goods industries, textiles held a special position in the application of the Plan. The different sections of this industry had for many years been united in an association with a carefully developed statistical service on technical equipment, labour, raw-material requirements, and production. During the war raw-material allocations were administered through this association, which possessed a ready scheme for distribution according to capacities. The industry had, in fact, been under a system of sectional planning. The authorities naturally made use of this instrument. With its aid a plan for the textile industries was drawn up centrally. This plan, more elaborate than in other branches of light industry, presented in its subdivisions a production programme for each of the factories.

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presented in its subdivisions a production programme for each of the factories.

For industries generally, light and heavy, the authorities expected the quotas of production to provide for an output exceeding that of 1946–7, and producers being aware of this would take care not to make their estimates unduly low. Yet no definite directions were given in advance to what extent production should be raised. The issue was thrashed out in discussions between representatives of the different industries and the Government experts. In the course of these discussions stocks as well as prospective supplies of raw materials and other factors bearing on production were investigated. Suggestions made by industrial experts formed the basis of deliberations, and were examined and possibly revised by Government experts and labour delegates. It was in co-operation with the industrial experts, labour representatives, and authorities at this preparatory stage that the plans of the concerns and simultaneously the plans for whole branches of industry emerged. Experts of the different concerns within the same branch of industry were in contact before submitting their propositions. As the ensuing discussions with the authorities were mostly conducted in the presence of representatives of the entire branch, the distribution of work among the different concerns was also decided.

In the course of the preparatory work production quotas involving additional capital equipment were scrutinized with special care in an endeavour to fit in requirements with the production of capital goods. Attention was also given to the repercussions of changes of production in dependent industries and to the co-ordination of raw-material supplies and production plans. But the fact that the time allowed for the preparation of the Plan was short left its mark in several respects. For lack of time the estimates of raw-material supplies, in particular of those to be imported, were in many cases arbitrary, and the plans for co-ordination of the activities of the different industries were sketchy and incomplete.

The Plan as we have seen was drawn up on the assumption of a considerable increase in the efficiency of labour. It was, in fact, a feature of the Plan that output should expand on a much larger scale than the number of hands employed in industry. This cost-diminishing factor had to be considered when setting up the specific plans of individual concerns if they were to fit into the general Plan. On the other hand, while an improvement of the standard of living by levelling up wages was envisaged, wage increases were to be admitted only when output per head increased. The reduction of cost was, in principle at

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least, anticipated within the individual production and investment plans. No details were disclosed to show to what extent these tentative estimates approached reality within the various industrial branches.

The Plan published on the authority of the National Planning Department—as provided in the fundamental law on the Three-year Plan—was on its industrial side the outcome of this preparatory work. So far as the big public enterprises in mining and heavy industry were concerned, their executives were, in fact, confronted with their own sectional plans. They received a programme of production with a classification familiar to them. As for the expansion of their output, the public concerns could rely on special consideration for their raw-material needs. These materials were provided increasingly by Russia and Poland even prior to the Plan.

Light industries retained some discretion in their production in virtue of the vagueness of the schemes presented to them. It was understood, however, that the production of necessities should have priority. And special directives were given to use a definite quota of the available material for the production of articles of a certain description in the textile and the leather industries. These directives eventually crystallized in rulings on the output of utility clothes and footwear.

There was a general tendency to turn out standardized articles, and if possible of maximum tonnage or other quantitative units. In this respect there was no difference between the position of the executive of a public enterprise and the private entrepreneur. Both were under pressure to realize and if possible to surpass their quotas.

THE MECHANISM FOR ADJUSTMENT

By the decree of August 1947 the obligation was imposed on all enterprises employing more than twenty workers to submit through the competent Ministry specific plans to the National Planning Department. For the fulfilment of it, the ground had been prepared through the consultations between industry and the authorities which have been described above. The plans had to include the following: (1) the plant capacity; (2) the amount of production in 1946–7; (2) planned production specified according to the types of commodities as listed in the directives of the Planning Department; (4) planned investment. The quantity of raw materials, man-power, and equipment needed for the production and investment proposed had to be indicated.

But that was not the whole story. As from the second half

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of the first Plan year the scheme for the specific plans became much more elaborate. In fact, a set of plans had to be drawn up half-yearly (broken down by months) and fitted into schemes prepared by the authorities, based on comparisons of current production with that of 1938. Altogether eight specific statements were required: (1) a general description of the activities of the concern; (2) production; (3) raw-material requirements; (4) cost reduction; (5) man-power; (6) replacement; (7) investment, and (8) finance. Estimates of production were to be given in quantities and values, according to the list of articles published by the National Planning Department. Products outside this official specification had also to be listed, in so far as their output came up to 15 per cent of the total production of the enterprise. Statements were wanted about the quantity of products to be used within the concern, and about that destined for marketing. The percentage of technical capacity to be utilized by the production proposed had to be stated.

The raw-material programme had also to include requirements of fuel and power. Separate statements on domestic and imported materials were asked for. Calculations were to be submitted of raw-material, fuel, and power requirements per unit of each of the products (or types of products) with reference to the pre-war norm.

The plan for the reduction of costs was supposed to present suggestions for economy in materials and in overhead costs, and for the improvement of labour efficiency.

Detailed statements on man-power needs were to be drawn up with time-tables, showing the requirements in skilled and unskilled labour.

Time-tables were further demanded in respect of the needs for raw materials and man-power, and of financial requirements in connexion with replacement and investment. Investments were to be proposed as required, for carrying out an increase of production in accordance with the Plan. Investments outside this requirement were to be suggested only if calculated to realize a saving of cost substantial enough to replace the capital expenditure within a short period. The financial plan had to present estimates of receipts and expenditure, of profits and losses, and of requirements for investment and working capital.

It is hardly necessary to say that no real plan could be drawn up in the details prescribed, and that it was impossible to check them effectively. None the less it was assumed that these individual plans would enable the Planning Department to check estimates made when preparing the Plan, and to carry through adjustments if deemed necessary. The individual plans had a

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very practical significance, in that once approved they became obligatory. Any departure from them, whether in production or in capital outlay, exposed the executives to the danger of being accused of sabotage.

No modified version of the Plan, compiled from the individual quotas submitted, was published. Two series of figures were disclosed: the preliminary forecast, and the achievements in the first Plan year. In the following table actual production is not compared with totals built up from the quotas of the individual enterprises, but with the preliminary programme promulgated on 1 August 1947.

	Preliminary Forecast	*Actual 1947–8*	*Percentage fulfilment*
Iron ore, 1,000 tons	210	258	123
Bauxite, 1,000 tons	220	400	182
Electrical engineering, value million forint	335	562	168
Bricks, million pieces	250	205	82
Leather, million forint	232	364	156
Footwear	—	—	123
Knitted wear, 1,000 kg.	3,480	1,750	50
Flour	—	—	62
Rubber goods, value million forint	80	230	288

As illustrated by the wide range of variation in the rates of fulfilment, the Plan was fluid. The forecast published in August 1947 was but a starting point. Numerous factors inducing considerable alterations were at work. When the Plan was put into operation and production in accordance with the quotas was entered upon, substantial departures from the forecast took place, and in many cases the quotas were exceeded. The increase in the output of iron ore was due to a quicker rise in labour productivity than had been expected. Ample ore supplies were reflected in the output of rolled material, entailing a revision of the programme for heavy machine industry. In the case of bauxite the possibilities of sale were, as stated officially, under-estimated. Even the steep increase in output remained within the available capacity. The level of production in electrical engineering was revised in order to raise exports. The markedly higher achievement was obtained by the introduction of a second shift, in some instances even of a third. In contrast to these extensions, brick production was less than planned. The building-material industry was to a considerable extent disorganized. Prior to the Plan its coal supplies were deficient. Deliveries of fuel became more regular under the Plan, but productivity of labour continued to be extremely low.

Developments in consumer-goods industries were highly uneven. The huge excess in rubber-goods output over the quantity planned can be explained mainly by the under-estimation of

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raw-material imports. Moreover, the production of the rubber industry received a stimulus from orders for tyres of standard type to be delivered to the Soviet military authorities. Supplies of home-made leather were larger than had been provided for, while imports were deficient. This shift involved on balance a heavy inroad on the raw-material stocks. Production of knitted wear was curtailed as an unusually mild winter caused a setback in demand. Low fulfilment in flour milling was the consequence of scanty raw-material supplies caused by poor crops.

Cases like that of the knitted-goods industry naturally could be dealt with only in closest co-operation with the authorities. The approval of the Planning Department was needed for changing the production programme. A corresponding redistribution of raw materials followed. Price policy had to be revised in order to hasten the disposal of accumulated stocks. This implied a change of the financial plans of the enterprises concerned, requiring additional credits.[1]

Since individual enterprises were, in their production and investment, tied down to their plans as approved, any change needed previous official consent. Executives were anxious to obtain this consent whenever conditions called for an alteration of their plan. Applications for alterations were dealt with by the National Planning Department in co-operation with the competent Ministry. The fact that the Plan was published by the National Planning Department implied that the latter had the power to carry out modifications according to practical requirements. It was, in fact, a duty of the Planning Department, being the authority responsible for the working of the Plan, to provide for necessary revisions. If these involved additional capital outlay, the consent of the Supreme Economic Council had to be applied for.

Whenever proposals submitted for the alteration of individual plans aimed at widening the scope, they were, as far as possible, favoured. Suggestions for reduction were severely scrutinized, and had to be supported by cogent reasons. In outstanding cases, such as the speeding up of the development of power generating, the initiative lay with the National Planning Department.

The efforts of the Planning Department to co-ordinate economic activities were supported by the Inter-departmental Committee for Credit Allocation. This agency, whose competence covered the whole field of economy in so far as the supply of working capital was concerned, had already evolved certain methods of work and routine during the year preceding the

[1] This being a typical case referred to in a more general context on p. 28.

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Plan. But its activities gained a firmer footing through the Plan. It was naturally understood that credits would be allocated only within the framework of the Plan. This general rule, however, was not adequate for practical action. Selection was needed even among Plan objectives, for a switch-over of credits from one branch to another according to actual developments often proved necessary. This support was particularly important when at the initial stages the different strata in the Hungarian economy were but loosely connected, the carrying out of the Plan being in many respects sectional rather than comprehensive. The Committee, in executing the credit plan, provided for adjustments which might be necessitated by some unforeseen urgent requirements. Irregular supplies of raw materials might call for shifts in production, or other occurrences might impede an expansion of production on the scale planned. In cases (not very common) where orders received fell short of the quotas, production could be reduced by permission of the planning authorities.

The enterprises had to apply for fuel and raw-material allocations, just as before the Plan, under the system of controlled economy. Exchange regulations as well as price control remained essentially unchanged. The organization of trade was not yet altered; industrial concerns were in a position to sell their products to any firms they chose. The concerns supplying private dealers mostly pertained to the light industry, while heavy industry was engaged in Government orders. The vagueness of the individual plans of light-industry enterprises enabled them to adapt their production to subsequent shifts in demand.[1]

At the same time the executives had to comply with a special control exercised by the National Planning Department. Its representative was present in every public or private concern of importance.[2] The position of these functionaries differed widely. In some cases (especially in State-owned enterprises with executives personally responsible to the authorities) they were mere observers or liaison officers. In other instances they became the real commanders of the enterprise. But, apart from the degree of this personal influence, the managements had to be aware that applications for allocation of raw materials, for credit, or for foreign exchange would be considered only if designed for purposes conforming to the specific plan approved for the enterprise. Besides these practical considerations, there was another strong argument for sticking closely to the approved plan—any departure from it involved a danger of an indictment for economic sabotage.

[1] As pointed out on p. 31.

[2] See also p. 29.

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AGRICULTURE

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In agriculture a system of planning was built up which was reminiscent up to a point of the form of agricultural planning in Great Britain or of the control and guidance of agriculture introduced in other countries of Western Europe. The common characteristic of these systems was production by private enterprise under central control, one of the main objectives of the direction being to ensure the delivery of certain quantities of food to the public authorities. Hungary, like the Western countries, relies within the pattern of control on price policy and on the granting of other advantages on certain products to induce the kinds of production desired. In the methods applied, however, the similarity was soon to cease. In contrast with the Western countries, the prices fixed in Hungary for deliveries were insufficient, as evidenced by black-market prices far exceeding the official ones. The inducement to evade the requirements of delivery was, therefore, strong. It was of vital importance for the Government to secure at least the moderate rations of food prescribed for the urban population. As from 1946 a machinery for collecting had been carefully developed, and later on flying squads were organized to apply harsh methods in repressing the peasants' attempts to slip through the meshes of the regulations requiring the delivery of grains, fat, and other produce. As a considerable part of the normal farm output had to be handed over for public supplies, an efficient working of the system would mean that the farmer was compelled to produce adequately if he was to have enough left for his private consumption.

It was not solely through the tightening of the collection system that the introduction of planning changed the position of the individual farmer. In order to secure the growing of certain products, direct compulsion was applied by decrees ordering in detail which part of the holdings should be devoted to the cultivation desirable. This compulsion was the very essence of the agricultural plan, which embraced the whole of the arable area. A plan was drawn up for production in stock-raising, too, listing the quantities of meat, milk, poultry, eggs, wool, etc. to be produced. These latter figures remained mere targets, but for crop growing the plan was, in one respect at least, realized. There were two sets of targets; the area to be sown with each product and the average yield. The latter represented guesswork more than anything else, though the estimates of yields lower than those of 1938–9 showed the intention of the planners to allow for underlying changes.[1]

[1] Average yields in 1938: wheat 9·6, rye 7·3, barley 9·2, oats 8·0, maize 13·1, potatoes 42·3, and sugar-beet 126·6 quintals per yoke.

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The plan was drawn up on the following lines:

	Estimates 1947–8			Results 1947–8		
	Area sown 1,000 yoke	*Average yield quintal/ yoke*	*Crops in 1,000 quint.*	*Area sown 1,000 yoke*	*Average yield quintal/ yoke*	*Crops* in 1,000 quint.*
Wheat	2,450	7·3	17,885	2,324	6·8	15,800
Rye	950	5·8	5,510	1,005	7·2	7,240
Barley	850	6·9	5,796	784	9·0	7,060
Oats	340	6·4	2,176	409	8·5	3,480
Maize	2,100	10·6	22,366	2,263	13·1	29,600
Potatoes	525	38·0	19,950	490	47·5	23,300
Sugar-beet	125	85·0	10,625	185	86·0	15,900

* Provisional data, no corrected figures were later given.

In determining the area to be sown with each product, the natural conditions of agriculture in Hungary had to be taken into account. Even within these limits modification of the pre-war sowing scheme was possible, and was, in fact, carried through in response to urgent needs (in particular by extending the area for oil seeds). The sowing plan for 1947–8 had to be revised, because in the autumn of 1947 the preparation of the soil was hampered by abnormal weather conditions. The gaps left by reduced autumnal sowing of bread-grains were mostly filled by planting maize in the following spring, as summer wheat and rye do not thrive in Hungary. But, apart from occurrences of this kind, the sowing plan was carried out. The mechanism of control proved fairly efficient.

The breakdown of agricultural output according to counties (numbering twenty-five) was drawn up by the Ministry of Agriculture. This plan, with its subdivisions, was based on previous experience. The starting point for determining the area for each crop was the average pre-war figure. This was cautiously modified with a view to changes in agricultural policy (change-over from grain-growing to more diversified production) and to immediate needs.

It was the task of the county committees, assisted by local government agricultural departments and representatives of the Planning Department, to elaborate, within the limits set for each county, sowing plans according to districts and localities. The responsibility for determining the part of the individual farmer rested with the local or village committees. These were destined at the same time to supervise the activities of the farmers in their successive stages. The omnipresent Communist Party, together with the organization of the 'National Union of Working Peasants', was called in to assist the village committees in fulfilling their task of control. These local committees supported the representatives of the Planning Department, who

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resided in every administrative district—about 200 by the end of the first Plan year.

The change in the position of the farmers can be fully appreciated only when the political atmosphere in the rural districts is realized. The edict of November 1947, in protection of the Three-year Plan against criminal offences, could naturally be applied equally to agriculture. In case of delay in some part of his work, or of any infringement of delivery orders, the farmer might be threatened with prosecution for economic sabotage. This possibility often became a reality as soon as the campaign which aimed at splitting the peasant population had been started. The November edict then proved to be a very effective weapon in fighting the *kulaks*, i.e. the wealthy peasants with a property exceeding 25 yokes. Holdings over that size were supposed to need hired labour, qualifying the owner as a class enemy. The farmers with a smaller property than 25 yokes were acknowledged as allies of the working class, not exploiting labour but themselves running their farms assisted only by members of their families.

THE UN-PLANNED SECTION

Small-scale Industries

The control exercised by the Planning Department did not extend to unincorporated concerns employing fewer than twenty workers. The share of the small units below this limit in the total output of manufactured goods was near 25 per cent. These units were not obliged to submit production plans. Investments carried out by them required approval only when exceeding the amount of 200,000 forint (£4,000). Consequently an appreciable part of industrial production and some part of total investment (in small-scale industry, agriculture, and trade) remained 'un-planned'.

Of raw-material supplies it was decided that certain quotas should be allotted to small-scale industry. These quotas were as a rule not adequate, allowing only a limited scope for the activities of handicrafts. Small manufacturers and handicraftsmen practically carried on their business under a controlled but not a planned economy. Yet controls were not efficient enough to regulate the activities closely. This applied in the first place to the prices they charged. The profits they earned, therefore, were often far above the officially approved rates. Consequently they were able to pay wages and raw-material prices in excess of the prescribed limits. Such evasions of the price control on raw materials were not extensive. The black market, though

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important for food, was not of appreciable significance as far as raw materials were concerned. Nevertheless the leakages did involve some disturbance within the planned portion of economy, especially in the sphere of labour, where the attraction exerted by the higher wages paid by the small employers restricted the supply of skilled labour for factories.

Labour Market

Individual enterprises were obliged to draw up specific manpower plans, but no central planning was established for the labour market. The planners were satisfied that growing production would automatically absorb parts of the labour reserve. They did not plan for full employment, realizing that the Three-year Plan would at the most provide employment only for a part of the labour reserve in the rural districts. Owing to the certainty that reserves were far in excess of Plan requirements, the recruiting of labour, except where skilled labour was concerned, was left in the hands of the employers, using the services of the labour exchanges for that purpose without any authoritative interference. The wages at which applicants were to be engaged had been fixed, of course, by approved collective agreements.

The increase in numbers employed was markedly slow during the first Plan year, as 'in-door' unemployment, widely spread in 1946–7, had first to be absorbed. Owing to the surplus of unskilled labour there was no need from the economic point of view for comprehensive labour organization, but steps soon had to be taken to overcome the shortage of skilled labour.

THE TARGETS—PLANNING FOR EXPANSION

As officially proclaimed the fundamental conception of the Plan was to raise production on a scale sufficient for a gradual improvement in the standard of living, and for a capital accumulation at an unprecedented rate. The initial impetus for an accelerated rhythm of economic activity given by the Plan was supported by an extension of credit, which was not necessarily inflationary in an economy with unutilized resources. The subsequent expansion of production was to be effected by a steadily enlarged capital equipment and by improved labour productivity. Industrial production was estimated at about 60 per cent of the pre-war level in 1946–7. The Plan envisaged the re-establishment of the pre-war standard of living by the end of the three-year period. In view of a steeply rising rate of net investment—from 10 to 18 per cent, against some 5 per cent in the

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CHAPTER VI

THE CHANGE IN ECONOMIC AND FINANCIAL STRUCTURE

INDUSTRY AND AGRICULTURE

471 WITH the change of the political climate in Eastern Europe, the policy in regard to the scope of nationalization underwent a definite change. In March 1948, shortly after the coup d'état in Czechoslovakia and the ensuing nationalization measures in that country, public ownership of all industrial enterprises in Hungary with more than 100 employees was announced. No preliminary discussions on a measure of such consequence had taken place. It was plotted by the Communists and presented to the public in a way that deprived the other parties—already politically undermined—of the possibility of offering any opposition. The law enacted in May 1948 on the nationalization of industry did not protect even small-scale industry against further encroachment. It vested the competent Ministry with arbitrary power to include any plant irrespective of size. Though the principle was established that compensation should be paid to the former owners, it was never intended to carry this principle into practice.

Thus when the first Plan year drew to its end, broadly 80 (and later 90) per cent of manufacturing industry in terms of man-power was nationalized. In the wholesale trade the change-over was completed within a short period. By 1949 nationalization had also made substantial progress in the retail trade.

And there was the sinister chapter of land collectivization. 661 The campaign was opened after the rupture between the 565 Cominform and Yugoslavia. In fighting 'rural capitalism' assi- 423 duous efforts were made to split the peasants into two camps, the *kulaks* or exploiters on the one side, and the 'working peasants' on the other. Owners of farms larger than those workable by one family were denounced as capitalists. In the course of the campaign this line of discrimination faded. Eventually it depended on the arbitrary decision of the local party committees whether a farmer ranked as a *kulak* or as a working peasant. The intention evidently was to outlaw the *kulaks* and to coerce or entice the working peasants into the *kolkhoz* (the Russian type 241 ~~429~~ of collectivized farming). Co-operatives merging the small hold- 474 ings according to that system into an economic unit enjoyed

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be a separate institution, a change which did not substantially alter the former position. In it, the savings banks of the country, including the Postal Savings Bank, were merged. Besides collecting deposits through its network of branch offices, it acts as a bank for private enterprise. It grants short-term credits to small-scale industries and retail trade. But the credits granted fall short of the deposits collected, and the excess is transferred to the National Bank to support the credit operations of the latter. According to an expert statement the direct lending of the Savings Institution amounted to hardly 10 per cent of total deposits in July 1949.

(4) The Bank of Co-operative Societies, a long-established centre for co-operative credit, acts as the bank for agriculture. Though it receives deposits, this branch of its activity has so far shown poor results, and it depends, therefore, for capital resources on the National Bank.

Outside the Hungarian banking system the Russian-owned Bank already referred to enjoys a status of *de facto* extra-territoriality. It is the banker of the various Russian enterprises, headed by an agency for the management of Russian property. The Bank was originally Austrian-owned, and was taken over by the Russians in pursuance of their interpretation of the Potsdam Agreement. Other foreign banks were wound up, as no scope was left for their activities.

From any description of the banking system of Soviet Russia it is clearly seen that the Hungarian Communists faithfully fulfilled their task of copying the Russian organization. The State Bank, as the sole institution for short-term credit, and around it a few specialized agencies as distributors of the funds made available for planned investments, are the characteristics of the credit system adopted in the Soviet Union in 1930.[1] However, when building up the new system, there was a fundamental difference between what had to be done in Russia on the one hand and what in Hungary on the other. The Russian Bolsheviks had to fill a vacuum, as vast territories under their rule were without any credit organization. The Hungarian Communists had, on the contrary, first to destroy a fairly well developed credit system before introducing the new pattern.

It was a peculiar incident in the course of the Three-year Plan that the pattern of economy changed during its progress. To initiate these changes was a daring experiment, which amounted, in fact, to an alteration of the steering mechanism while under way.

The following table shows the progress of nationalization in the course of the Three-year Plan.

[1] Alexander Baykov, *The Development of the Soviet Economic System: an essay on the experience of planning in the U.S.S.R.* (Cambridge University Press, 1946).

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THE PROPORTIONS NATIONALIZED (PER CENT)

	July 1947	*July 1948*	*Dec. 1948*	*Dec. 1949*
Mining	91†	91	91	91
Manufactures	37·5	80	87	92
Transport	98	98	98	98
Banking	80	95‡	95	95
Wholesale trade*	—	16	75	100
Retail trade*	—	—	20	30
Agricultural land				
(*a*) State-owned	2	2	—	4
(*b*) Producers' co-operatives	—	—	—	2·6
Forestry	100	100	100	100

* Including publicly-owned co-operatives in terms of turn-over.
† The rest foreign-owned.
‡ The rest Russian-owned.

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471 There was another incentive, perhaps more powerful than these, for speeding up the Plan. The grip of the Government on the economy of the country and on labour became firmer after the events of the spring of 1948. In a short time the trade unions were transformed into Government agencies for furthering production. And meanwhile the political position of the workers had suffered a change, as the disappearance of the Social-Democratic Party and the reduction of the other coalition parties to mere shams virtually meant the adoption of a one-party system. These changes in the political sphere gave rise to the hope that devices, more effective than those previously relied on, could be employed to force up the productivity of labour.

In the economic field the direct control acquired over manufacturing industry provided rigid adherents of universal nationalization with an opportunity for planning a higher scale of achievement. They thought it necessary to demonstrate the superiority of nationalized industry over private enterprise, and here was their chance. In an important sector of the economy the necessity of a twofold administration of the Plan practically ceased. Instead of conducting discussions with the executives of private enterprises, direct orders could be given, through the hastily-organized industrial directorates, to factory managers appointed on the authority of the very same agencies. No doubts were allowed to be voiced as to the efficiency of a rigid centralization, it being dogmatically maintained that this move towards Socialism was bound to secure higher yields.

Under the Act on Nationalization, passed in May 1948, directorates for each branch of industry (numbering twenty-nine) were established. At first they exercised the supreme administrative authority, and were also the central operative agency of the industry concerned. After a tentative period these functions were divided. The Industrial Directorates retained the task of supreme administrative control, and became sections of the respective competent Ministries. On the other hand operative centres for the management of mining and industry were organized, one or more for each industrial branch, according to its importance or the dispersion of its plants over the country. 471 The agencies co-operating at the top level were now the National 647 Planning Department,[1] the Industrial Directorates, and a Section for Public Enterprises newly set up in the Ministry of Finance, the latter of course being principally concerned with the financial plans. It was the task of the directorates to mould the plans submitted by the enterprises of the industrial branch

[1] With the Raw Materials Board as one of its sections.

3 A [Reduction of reparations and increase in defense expenditure.. Analyst]

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controlled by them into a unit; they had to watch the fulfilment of the approved plans, and were to make provision, with the consent of the National Planning Department, for whatever changes proved necessary in any of the individual plans or in the sectional plan of the branch.

Moved by the considerations referred to,[1] the planners decided that the capital programme projected for the period August 1947 to July 1950 should be carried out by the end of 1949. Accordingly, production was to be speeded up so as to attain the level originally planned for the end of a three years' period within twenty-nine months. The decision required a new subdivision of the 'Three-year' Plan in place of the three twelve-month periods. It was found convenient to abridge the second part into the five-month terms of August-December 1948, while the third was to run, like the first, for twelve months, from January to December 1949.

INDUSTRIAL OUTPUT AND EMPLOYMENT

It was intended that industrial production should be raised in the closing Plan period to double that of 1946–7. In the first year a 50 per cent increase was achieved. During this first phase of expanding production the enterprises were to draw on their 'in-door' reserves of man-power. Their capital investments were concentrated on the elimination of bottlenecks, so that disproportionate increases of production were made possible. In the following period no special factors of that kind operated. Additional labour was to be employed, roughly in proportion to the stepping up of production. Opportunities for setting whole workshops in motion by replacing some damaged parts at small cost were exhausted. The mainstays of further development, the increase of the labour force and massive investment, were bound to be coupled with more searching methods of organization and factory management if the objectives of the Plan, including the rise in productivity, were to be realized.

The progress of industrial production is indicated by the index numbers computed by the National Planning Department.

INDUSTRIAL OUTPUT (PER CENT)

	1938	*1946–7*	*1947–8*	*1948 Aug.-Dec.*	*1949*
Actual	100	60	92	100	135
Planned	—	—	88	—	127

After the 50 per cent rise during the first Plan year industrial production appears to have been raised again by nearly 50 per cent within a seventeen-month period. In the cases of mining

[1] [See cat #6, pp 61-63--Analyst]

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CHAPTER IX

TECHNIQUE AND ADMINISTRATION OF THE PLAN

PRIVATE AND PUBLIC ENTERPRISES

FROM the point of view of an entrepreneur or of the executive of a public concern, planning first presented itself as an obligation to fill up endless forms. But this incident of control was not inflicted equally on the whole range of enterprises. Public enterprises and some other important concerns or industrial groups (engineering, textiles) were under tight control. But outside this sphere central control was loose, as the individual plans on which it was based had been intentionally kept vague, so as to avoid too specific commitments, and to leave the executives space for manoeuvre.[1] Yet in one respect a definite direction was given all along the line. The drive to raise production was directed no less upon producers who were not controlled in detail. Quite apart from the pressure of the representatives of the Planning Department, who were eager to record better results, the producers themselves were interested in utilizing capacity to an increasing extent. The interest of the entrepreneurs began to diverge from the fundamental trend of the Plan only when their opinions differed about the remunerativeness of investments proposed by the planning authorities.

That is not to say that private enterprise would otherwise have followed the lead given by the Plan without reluctance. Yet the expansion of production required by the Plan was in line with the aims of the entrepreneurs, so long as confidence in the preservation of the system of mixed economy was not completely shaken. Even when anxiety about nationalization was growing, it was risky to contravene the Plan by curbing production. Thus the tendency of the private owners to withdraw capital did not manifest itself in slowing down production, but in the endeavour to carry on production by the aid of credit to the largest possible extent.

It was left to the executives of public as well as of private enterprises to conform to their specific obligations under the Plan. They were responsible for applying for fuel and raw-material allocations, for procuring the necessary labour force, tools, and equipment, and for obtaining adequate credits. In many respects they had to fill gaps caused by incomplete co-

[1] As described in Chapter IV.

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ordination of the work of the authorities. The executives were, in particular, supposed to collect adequate information on the prospects of raw-material supplies when submitting applications for credit. This information was mostly derived from official sources: the Raw Materials Board, or the Ministry for Foreign Trade; yet in a number of cases it was supplemented by anticipations based on special knowledge of sources of supply.

With a view to the control of the manufacturing process, the Planning Department attempted at first to keep account of every detail, right down to the output of individual products within the different concerns. Later, in view of the rapid expansion of production, it was recognized that control could not work in such detail. After some hesitation the National Planning Department confined itself to watching the flow of production of each individual concern as a whole, with little regard to whether some of their workshops were ahead of their schedule and others lagged behind it. The overall figure of current production of a concern was estimated on the basis of the number of workers engaged in the different sections of production. The relation of the wage costs to the value of products was worked out for the various sections of the manufacturing process within the concerns. The Planning Department exploited these calculations in order to control on broad lines the rate of expansion in industrial production.

The local representatives of the Planning Department were in a position to exert current control, provided they had sufficient expert knowledge. The heavy penalties inflicted for any offence against the Plan generally sufficed to prevent any shortcoming on the part of the executives. They were, in fact, anxious to secure approval in advance for any change in programme. This practice contributed to the tightening of control, imparting at the same time a bureaucratic character to the whole system.

AGRICULTURE

The individual farmer's production was directed by local agricultural committees established through the agency of the National Union of Working Peasants.[1] The counties and districts, with their respective departments and committees, operated as intermediate organs behind those local bodies. Central direction emanated from the Ministry of Agriculture, which was responsible jointly with the National Planning Department for this part of the Plan. The local boards deter-

[1] See above, p. 39.

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241 grain, oil seeds, fat, and pigs. Smaller holdings had to surrender
656 fat. The owners of holdings over a certain size were obliged to fatten pigs for delivery, up to a prescribed minimum weight.

It was a common feature of the measures taken in order to control agricultural production that they were applied, in particular in the latest stages, with a severity not justified by purely economic considerations. For political reasons it was intended to go beyond economic necessity, so as to provide a weapon in the campaign by which the wealthier part of the peasantry was to be annihilated.

AGENCIES FOR CO-ORDINATION

647 The National Planning Department, as the centre of the
471 whole economic system, was endowed from the outset with wide powers. The Department started with a small personnel, on the assumption that it could make use of assistance from other Departments for special tasks. Battling at the beginning with difficulties within its own organization, the supreme planning authority had to divide its attention between the current work of control and adjustment and what may be called the strategic line of planning.

As an inevitable consequence of the hasty manner in which the obligations of producers under the Plan had been drawn up, applications for the approval of alterations poured in at the time when the checking and co-ordinating of the individual plans submitted were going on.[1] Alterations approved for one concern were often bound to involve changes in dependent industries. This was recognized, yet a workable co-operation between the Planning Department and the Ministries of Industry, of Transport, and of Public Works, in order to master the problem, was but gradually evolved. Until better co-operation was achieved, many disturbances had to be overcome, amounting even to a stoppage of plants caused by delays in decision. In a number of cases the executives preferred to interrupt production rather than take personal responsibility in the absence of new directives.

The National Planning Department considered the drawing up of investment projects beyond those published in the Plan to be one of its paramount tasks. This was in accordance with the policy of speeding up the production of capital goods. The schemes were prepared, use being made of capital programmes worked out before the introduction of planned economy. The schemes were kept in reserve, in order to be launched as soon as

[1] See Chapter IV.

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their realization appeared feasible. Priority was given to the development of electric-power production (based on deposits of lignite), as this was considered the most restrictive bottleneck in industry.

The individual quotas, covering half a year and divided up by months, became operative in so far as estimates of raw material supply were correct. These latter were a specially vulnerable point of the production forecast. In the intial stages checking of individual estimates were, except for a few key industries, incomplete. Co-operation between the planning authorities and the Raw Materials Board was loose; a deficiency caused partly by political and departmental rivalries, the Planning Department having been Communist, the Raw Materials Board, as a section of the Ministry of Industry, under Social-Democratic control during the first phase of the Plan. To eliminate this impediment, the Raw Materials Board was later merged with the National Planning Department which, at the same time, took charge of price control.

The establishment of the Investment Bank in September 1948 was another step to complete the organization of the central planning authority. The Bank was operated as the financial section of the Planning Department.

The Planning Board, established in accordance with the fundamental Act on the Three-year Plan, worked as an inter-departmental co-ordinating body. The major part of the members of this Board acted as liaison officers between the Ministries concerned with economic affairs and the National Planning Department. Regular meetings of the Board kept the Government Departments currently informed of the designs of the central planning authority, thus enabling the Departments to influence decisions at a preparatory stage.

The Planning Department played an important role in shaping credit policy. It drew heavily on the resources of the budget and was a most important claimant of National Bank credit, as a further source for financing the capital programme. Moreover, the Planning Department was closely concerned with the allotment of credit to provide the different industries with working capital, since the execution of the Plan was dependent on it. The Department participated through its representative at the Inter-departmental Committee for Credit Allocation in preparing the monthly financial and credit plans, and was also represented in the Supreme Economic Council, which gave the financial plan its ultimate shape.

It was only in June 1949, during the closing period of the Three-year Plan, that the organization at the top was altered

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sionist tendency of the Planning Department. It preferred to fix the limit of the note issue below what the Plan might be expected to require, without making a corresponding cut in the budget expenditure for the capital programme. Consequently credit had to be restricted to avoid exceeding the limit. When extreme pressure was felt later in the month, the Council might revise the limit. But even so credit did have to be restricted.

The following summary of monthly credit plans shows typical seasonal changes in requirements. They are based on details thrashed out in successive committee stages.

	1948	
	August	*December*
	in million forint	
Agricultural loans	66·7	43·9
Advances to agencies for food supply	179·6	1·9
Loans to rural co-operative shops	36·6	3·0
Industrial credits	118·2	73·0
Credits for financing foreign trade	65·0	65·0
Loans for Plan investment	30·0	30·0
Others	10·0	10·0
Total:	506·1	226·8

Before applications for credit were approved by the Credit Committee, the uses to which the amounts to be raised would be put were scrutinized, and their conformity with Plan objectives was, of course, checked. Control, however, was not restricted to this prior checking of the credit applications. Accountants of the Credit Committee could at any time make inquiries as to the correct use of the amount borrowed. Departure from the prescribed line constituted a serious case of sabotage. The inclusion of a representative of the Raw Materials Board in the Credit Committee provided a link between the availability of raw materials and the allotment of credits.

Though every loan granted had to be within the Plan, applicants had no guarantee that they would obtain the amounts needed for the fulfilment of their obligations under the Plan. The ceiling for note circulation, determined by the Supreme Economic Council, necessitated a selection even among credits which were needed to carry out Plan objectives. But a postponement of the granting of a loan was not accepted as an excuse for slowing down production. The enterprise concerned was expected to find ways and means of expanding its production in conformity with the Plan. In some cases a way out was found by forced sales which depleted stocks. This expedient worked, however, only during the first phase of the Plan, when a wholesale trade with a capital of its own was still in existence. The

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471 sales were arranged with the knowledge and, in some instances, with the support of the public authorities, though the initiative, as a rule, came from the industry concerned. The expedient most frequently applied, however, was the postponement of less urgent commitments. The criterion of urgency was whether a postponement of payment would or would not stop production. Tax payments were suspended, as were disbursements to suppliers of raw materials, who were not in a position to threaten to interrupt deliveries immediately needed. These practices indicate the intensity of pressure brought to bear on production. Postponement of meeting obligations, while helping individual concerns to overcome momentary embarrassment, was bound to affect the financial system at other points. Tax revenue would fall into arrears, or repayments of advances by some of the suppliers concerned would be postponed. To a certain extent the method of fixing a ceiling for the note issue may have retarded monetary expansion, but it could not stop it.

453 652 [647] Inside the credit administration there was a fundamental change in the position of the National Bank. The shaping of credit policy in the Committee for Credit Allocation rested with the representatives of the Supreme Economic Council's Secretariat, the Ministry of Finance, and the Planning Department. The members of the different Government Departments (Industry, Agriculture, Public Works) represented sectional interests. The National Bank with its delegate in the Committee provided at the same time the Secretariat of the latter. This secured the Bank an important position within the Committee though chiefly in a technical sense. For amounts not exceeding 10,000 forint (£200) the Committee delegated to the Bank its power of deciding upon the allocation of credit. The Committee itself was authorized to decide on individual loans up to 1 million forint. Above this limit decisions were reserved to the Supreme Economic Council.

The National Bank was not obliged to grant loans approved by the Committee. The Bank was expected to act with the circumspection of an ordinary banker in examining the solvency of the debtor and other circumstances which might influence the security of the credit. On such grounds the Bank had discretion to refuse credits which had been approved. The practical importance of this remnant of a credit policy of its own declined, however, with the spread of public concerns with Government-guaranteed liabilities.

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TIGHTENING CONTROLS

It was intended from the outset to place the conduct of business, whether of private or of public concerns, under a strict financial control. Full use was made of accountancy to examine the relation of cost and prices, and general issues of rationalization (in so far as publicly-owned enterprises were concerned), and there were investigations on special questions such as the use of loans. But financial control, as conceived in the second phase of the Three-year Plan, went far beyond the limits of elaborate accountancy. The reshaping of the entire banking system, started in the second quarter of 1948, was designed to establish a permanent current control of every move of the enterprises.

The so-called single-account system was introduced to the end of organizing a huge unified financial department for all public enterprises, and for those private concerns specially designated. Each had to open an account with the National Bank, through which receipts and expenditure and financial operations of every description had to pass. In order to ensure a closer control, the single account was sub-divided in accordance with the various items of the financial plans (raw materials, wages, taxes, investments, etc.). The National Bank, therefore, was in a position, by comparing receipts and disbursements with the financial plan of the enterprise concerned, to exercise a continuous check upon its conformity with the Plan. Evidently the whole complicated system was drawn up to ensure control in pursuance of the Plan. Instructions from the holders of the accounts are carried out by the National Bank in so far as they are found to be in accordance with their respective financial plans. Outlays will be allowed only if they accord with the relevant estimates. Moreover, the National Bank is given discretion to transfer, without the instructions of the holder of the account, amounts due for taxes or for any other liability. If he has not a balance sufficient to meet his liabilities at maturity, the debtor is required to pay a penalty at the rate of one per thousand per day on the arrears.

This system of supervision precluded the possibility of granting a credit or of borrowing, except through the instrumentality of the National Bank. Thus a credit monopoly was conferred on the Bank, and not only was any other source of credit excluded, but suppliers were even prohibited from allowing deferred payment to their customers. The National Bank had to be notified of the sale-purchase, in order to debit immediately the ingle account of the buyer, and to credit that of the seller.

As to the question to what extent this absurdly rigid system

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471 655 worked, the scanty reports leaking out after 1948 indicate that its functioning was far from satisfactory. Exigencies of economic life proved to be stronger than strict rules, and the rules were not adhered to in relations between suppliers of goods and their customers.

Special Investment Control

453 454 Imperfect synchronization of the delivery of capital goods with the rhythm of plant expansion was a difficulty hard to overcome. It was experienced from the beginning, and could not be eliminated in the later stages owing to the rapid progress of expansion. A report published in the official Government paper by the end of 1949 reveals the handicaps of production persisting throughout the Three-year Plan. For example a special committee had to investigate conditions in a heavy industry plant of outstanding importance, where the main causes of unsatisfactory results were stated to be the lack of tools and irregular raw-material supplies for the machine shop.

454 655 The Investment Bank was in charge of the permanent control of investment activities, including the synchronization of operations. The allocation of funds for investment to individual concerns was determined by the Planning Department in co-operation with the Industrial Directorate concerned and the Ministry of Finance. The amounts allocated were then transferred to the account of the Investment Bank. The Bank was to supervise the execution of the work and to time disbursements in accordance with its progress. It had further to register deliveries connected with Plan investments. The causes of any delay exceeding a month had to be investigated, and a report of the inquiry had to be sent to the Planning Department and the Ministry concerned. It was the duty of the latter to take the necessary steps to prevent further delay and to notify the Planning Department of the action taken.

Defects in carrying out the investment portion of the Plan were summed up in a final report on the Three-year Plan, published by the President of the Planning Department, as follows: 'The investment plans did not reckon with the capacities of production and foreign trade. The result was that investment credit far exceeding practical possibilities (in particular the supply of equipment and the progress in construction work) was sometimes granted. Thus large amounts remitted to the Investment Bank remained unutilized, while there was a lack of funds for other investments.'

454 474 452 The control of investment in agriculture and small-scale industry was handed over to the National Credit Institute of

marked increase in prices since 1938. Reduced to the prewar territory and in 1938 pengoes, annual investments would have been of the order of 30-40 million pengoes, giving a total of 300-400 million pengoes.

The act did not provide special machinery to carry out the plan. An overhaul and reorganization of the agricultural administration was proposed, a measure which in any case was overdue, but the act did not go into details. One innovation, specifically mentioned, was the appointment of agricultural officers to all the larger villages and to groups of smaller ones to control the execution of decrees of an agricultural-technical character and to give advice on agricultural matters to the local councils and the farmers. Hitherto the organization of the agricultural administration was curiously deficient, as it had officers only in larger territorial units which were too large for efficient control.

The other innovation was the setting up of the National Council of Agriculture, an advisory body, appointed by the Minister of Agriculture. Otherwise, the role of the Chamber of Agriculture did not change and the special interest groups of farmers were to continue to exercise their functions.

The powers of the minister were greatly increased. The minister could compel producers of special lines to set up organizations to represent their interests. To regulate supply and improve distribution, the minister was also authorized to set up organizations combining producers, processers and distributors to regulate production and prices with binding force for all concerned; he was also authorized to give monopolistic rights to cooperative societies or state organizations for the purchase, distribution and export of specified agricultural products.

Increases in production were to be brought about by investments, by temporary tax rebates to farmers making permanent improvements, and by greatly increasing the power of the Minister of Agriculture to compel farmers to adopt more efficient methods.

Investments included increasing the number and improving

Transylvania was reincorporated—43,500 sq. km., population 2.6 million.

April 1941, the occupation of part of Voivodina added 11,500 sq. km., population 1.0 million.

In 1941, Hungary had a territory of 172,200 sq. km., with a population of 14.7 million, against 93,100 sq. km. and 9.3 million in the Trianon territory.

same authority, is unfortunately not available in this country. 185 X

The analysis of the Three Year Plan is thus based on material that leaves very much to be desired. However, where possible, indication was given of progress made in the interwar period and during World War II and it is hoped that these data, not generally accessible, will supply a background for a realistic appraisal of the plan and its achievements.

Machinery of the Plan[1]

The plan, in the form accepted and made into law, contained only broad outlines. However, machinery was set up to work out the details and to control the execution of the plan. This machinery provided a National Planning Board, an advisory body consisting of an equal number of representatives of all the parties of the government coalition and representatives of various organizations like the Trades Union Council, National Center of Cooperatives, etc. Its resolutions were not binding unless endorsed by the Supreme Economic Council or the Cabinet. 471

The actual work of elaborating the details of the national plan and coordinating within its framework the plans which the individual establishments had to prepare was the duty of the National Planning Office, a government department. When set up, its head was a collaborationist Social Democrat and its secretary-general was a Communist. Most, if not all, key posts were filled by Communists. The Planning Office was given power to control all investments. None of any size could be made by any corporation, not even out of its own funds, without the permission of the Planning Office.

To control the execution of the plan, each establishment was required to appoint a plan agent whose duty was to report on progress made and factors preventing or retarding progress.[2] The Investment Bank, set up to replace one of the nationalized commercial banks, was an additional instrument of control. However, as it had no funds and no policy of its own, it was only the accountant and the cashier of the Planning Office. More important was the role of the reorganized Bank of Issue which became the banker of nationalized industry with special functions and powers. [454] [453]

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our People," Social Review, Vol. V, No. 3 (1950), pp. 131-151.

2. Early in 1949, after the large-scale nationalization of industry, the plan agents were removed and their functions were transferred to the managers of the establishments who were appointed by the government.

1 [i.e. the Three Year Plan of 1947-1949]

471 For a while there were signs of rivalry between the Planning Office and the Supreme Economic Council, also a Communist-controlled body, which ended in the victory of the council. However, in 1949 the council was abolished, its staff was detailed to various ministries and government agencies, while its policy-making functions were transferred to a newly-created People's Economic Council, representing the major parties of the National Front of Independence under the chairmanship of a very powerful Communist Minister of State. The council counts several cabinet ministers among its members but is not a subcommittee of the Council of Ministers. It decides economic policy at the highest level and is the highest authority in matters of planning.

[687] When the plan was embodied in law, the government was authorized to issue all decrees necessary for the execution of the plan. Contravention of these decrees and, in general, obstruction to executing the plan were made a crime liable to severe punishment, even death in the case of serious sabotage. The punitive measures were later reinforced. Besides the statutory instruments of control, the government had other means to enforce the plan. Through successive nationalizations, the government became by far the most important single employer and its powers of black-listing were enormous. Besides, a general system of licenses restricted to a minimum free economic activity of any sort. Extension of this permit system to the purchase and lease of agricultural land made the system watertight.

[467] The party-dominated trade-unions and works councils were also important instruments of control. They were active in enforcing discipline, increasing output, and reducing costs, in marked contrast to their role in prenationalization and pre-plan days. Their control of the labor exchanges gave them complete power over workers of all grades as nobody could accept a work contract without the endorsement of the trade-unions.

471 461 An effective instrument to increase individual and collective output was the sharply graded piece-rate system with its constantly raised standards of output. Competitions were organized between different establishments and between departments of the same establishment with prizes and privileges awarded to the winners. The foundations were laid for the Hungarian Stakhanovite movement. Considerable material and social privileges were granted to the winning shock-workers who were then obliged to instruct their fellow workers in an effort to speed up production. The record output, achieved under special

conditions, was then used as an excuse for raising the "obsolete" output rates. In addition, every suitable occasion was used for the organization of special drives which, as the dates and the occasions were political (e.g. Day of Liberation, Stalin's birthday, etc.), made it easy to brand those who failed to improve their output as reactionaries and saboteurs. A more spectacular, if not more efficient, instrument was the institution of competitions between different establishments and even between different departments of the same establishments with prizes and privileges granted to the winners. Material and social privileges were granted to shock-workers and every suitable opportunity for special drives was used to spur the masses into greater effort.

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National Income[3]

The plan aimed to achieve a 78 percent increase of the national income in three years. A 31 percent increase in the first year was to be followed by increases of 18 percent and 15 percent respectively in the two succeeding years.

185 X 434

In 1946-47 the national income recovered somewhat from its great drop in 1945-46 to less than 50 percent of prewar to about 65 percent of that level. The Three Year Plan was to bring it to 85 percent of prewar in the first year and 14 percent above the prewar level by 1949-50.[4]

No great change was planned in the pattern of the national income. The planned increase in agricultural production (net output) of 62 percent in three years, would still leave it somewhat below prewar (1938) level. On the other hand, the 34 percent increase in mining and metallurgy would leave it below the 1943 level although 49 percent above prewar, due to the wartime

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3. The principal figures are summarized in Table I in the Appendix. 2/1

4. The blueprint operated with a national income, including the rental value of dwellings and some other minor items, mostly services, and used provisional estimates for the national income of 1946-47. The report on the first year of the plan omitted the rental value of dwellings and the other small items from the national income and used final figures for 1946-47. The omitted items amounted to 4 percent of the total. The percentages given in the text were based on the blueprint, except that the national income was made to conform with the concept used in the report.

The report gave the expected rise in the first year over 1946-47 as 34 percent and the level of the national income in 1946-47 as 63 percent of prewar. Change of definition or different grouping often makes comparisons difficult if not impossible.

2/1 [See cat. 116, p. 67 — Analyst]

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Considering all these facts in relation to the size of the national income, it seems probable that the true net income was some 1.2-1.5 billion forints, about 5 percent smaller than the figure cited in the reports. Thus the improvement relative to prewar standards becomes somewhat less impressive. The true national income of 1947-48 appears as 17.4 billion forints, 81 percent of prewar, and that of 1949 as 25.5 billion, 118 percent of prewar. The effect of the failure to account for the increase in inventories, a most important matter, will be discussed below (cf. Standard of Living).

The increase in volume was brought about by a large improvement in production in the mining and manufacturing industries, especially in heavy industry.

The pattern of the national income changed to some extent largely because of the poor performance of agriculture, which was below that of prewar. The share of agriculture was only 27 percent, while the share of industry was said to be 49 percent. The prewar shares were given as 37 percent and 42 percent respectively.[6]

[471] More significant was the change in the relative shares of the capitalist and socialist sectors. In 1946-47, before the plan started and nationalization assumed serious proportions, the socialist sector was responsible for 25 percent of the national income; in 1949 its share rose to 54 percent. The slow progress of collectivization dragged the figure down. Otherwise in industry the socialist sector accounted for 78 percent, in transportation for 84 percent, in distribution for 59 percent, and in agriculture for 5 percent of net output.

Official statements are reticent about the value of the national income at current prices. A provisional estimate put the 1947-48 national income at 26-27.0 billion forints which was about 50 percent higher than the volume at January 1947 prices. If the same ratio can be applied to 1949, the national income for that year must have been near 40 billion forints. Available information suggests that prices increased, in which case the probable value of the national income at current prices may have been higher because the change in prices affects the national income.

Investments[7]

The plan envisaged total investments in three years of 6.6

6. These percentages were given in the papers of Vas and Nagy and may be presumed to be comparable.

7. The principal figures are summarized in Tables II and III in the Appendix.

2 [See category 116, pp. 39-43 — Analyst]

investments in agriculture, the building of an estimated 120,000 cottages, mostly out of private funds, and the electrification of 500 villages are cited, besides the reconstruction of a large fertilizer and explosives works, the enlargement of a big tractor and armored car plant, etc.

A rather surprising achievement was the great increase in the area of the state-owned estates to 312,000 hectares from 151,000 hectares in 1938. In addition, 213,000 hectares were farmed by collectives. As all the forests became state property in 1945 and the state also owned fisheries and other agricultural property, the total "collective" sector in agriculture covered 1.5 million hectares—18 percent of the total acreage and 7 percent of the acreage under crops.

Mining and Metallurgy

The plan aimed at raising the value of the gross output of mining and metallurgy from 1.1 billion forints in 1946-47 to 1.2 billion in the first year and 1.5 billion in the third when a level 38 percent above prewar was to be reached. The prewar output was 1.2 billion forints. As there had been considerable development in the years 1938-44, and the gross output may have been near the 2.0 billion mark in 1944, the mark set was somewhat lower than the level that had been reached.

The goals looked more formidable when compared with the output in 1946-47, although recovery in mining, especially coal, had been fairly quick. They are set out in the following table:

Output, million tons

	Planned		Actual		
	1949-50	1947-48	1946-47	1948	(1943)
Coal	11.60	9.30	7.75	9.34	(12.70)
Iron ore	0.28	0.21	0.21	0.30	(0.34)
Bauxite	0.40	0.22	0.25	0.54	(1.00)
Oil	0.66	0.54[20]	0.64	0.04	(0.84)

For the development of the mining industry, 493 million forints were earmarked. This sum was to be used for the reconditioning of existing mines, some mechanization of coal mining, the developing of new pits, and the building of two flotation plants to utilize low-grade ores.

20. Oil production was forced during the war under German pressure and was maintained at a high level under Russian management in 1945-47. It had to be reduced in order to prevent the untimely exhaustion of the wells.

185 439 at current prices was slightly greater than planned. The volume of trade must have been below the goals set. Over 54 percent of exports were manufactured goods. In imports, raw materials made up 54 percent, semi-manufactured goods 15 percent, construction goods 13 percent, and finished consumer goods 18 percent of the total. A large proportion of the trade was with the Soviet Union and the other people's democracies.

Socialist Transformation

185 471 In the talks which preceded the acceptance of the Three Year Plan by the parties of the government coalition in the spring of 1947, the constructive propositions were in the foreground and no mention was made of any plans to transform the social and economic organization of the country. Criticism of the plan was difficult, even at that stage. The avowed and much publicized aim of the plan was the "raising of the standard of living of the toiling masses of Hungary" and any criticism was branded as anti-social and reactionary.

A conference of the parties accepted the plan in March 1947 and in May the Communist party announced that the nationalization of the commercial banks and the Bank of Issue was an essential condition of the realization of the plan, intimating that anybody who had agreed to the plan, implicitly also agreed to that measure. The nationalization of the banks led to a political crisis but was finally pressed through. Differences between the Communists and the Social Democrats centered on the scope of nationalization. In the debates on the nationalization issue, the necessity and scope of the measure were debated and no mention was made at that stage of any plans to reorganize the banking system. The nationalization of the banks was made law at the end of 1947. It brought some changes in the management of the banks, but none in their organization. In March 1948, over the Easter weekend, a sweeping nationalization measure was issued in the form of a decree affecting all industrial and business establishments employing more than 100 people. In April the Supreme Economic Council issued an order giving the broad outlines of the reorganization of the banking system, which was subsequently destroyed and rebuilt on the Soviet model.

The nationalization of a large section of industry and business required the setting up of an elaborate system of direction and control. In a series of steps, some of them contradictory, a system was evolved which, in its essential features, showed a great similarity to that of the Soviet Union. The Supreme Economic Council, and later, the People's Economic Council

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deliberated and decided on matters of high level policy. The Planning Office was the highest coordinating executive department. The ministeries, increased in number (the Ministry of Industry was split into a Ministry of Heavy Industry and a Ministry of Light Industry, and the Ministry of Trade into a Ministry of Internal Trade and a Ministry of External Trade), are concerned with big sectors of the economy. Within their framework, the Industrial Directorates are charged with the administration of broad groups of industries. Below them are the Industrial Trusts, comprising a number of firms engaged in the production of goods of a similar character. The nationalized firms, now incorporated as such, are under the direction of an appointed all-powerful manager who is responsible for the running of the individual plants. His activities are watched over by the chairman of the Shop Committee representing the trade-union organization and the local secretary of the United Workers' Party. The Bank of Issue, in the capacity of banker of nationalized industry, keeps watch over finances; a newly set up Central Control and Audit Department with very wide powers keeps watch over the efficient running of industry, and the Central Wages Board takes care of the elaborate piece-rate system and the "scientific" fixing of the ever-increasing output rates.

The reorganization of nationalized industry enabled the authorities to bring about a greater division of labor and to introduce mass production methods on a modest scale. The elimination of the waste which the prewar system entailed, with its multitude of small firms engaged in producing a large number of custom-made goods, had its drawbacks. Nationalization, however, had its limits and disadvantages. It did not stop with producer goods but greatly affected consumer goods industries, and through the production of utility types, eliminated not only waste but also quality production and the possibility of choice on the consumer's part.

The two nationalization measures, together with the "operational control" of the largest plants in heavy industry introduced earlier, led indirectly to the nationalization of a large section of foreign trade and internal wholesale trade. Later, complete state control was established in both fields and the share of the state stores and cooperatives in the retail trade rose by 1949 to about 30 percent. While the reorganization of nationalized industry was in progress, it was repeatedly stated that no measures were planned to infringe upon the interests of the small traders and the artisans.

In 1949 a new measure of nationalization affected all industrial

185 X 471 and business establishments employing more than ten people. It was stated that the measure was not intended to endanger the true small traders and artisans who were said to be valuable elements of society. However, deadly competition for the small shops was provided by the setting up of the state stores, which were given monopoly in the distribution of some goods, were free from many of the restrictions to which small shops were subject and received favored treatment from nationalized industry. At the same time, the policy followed in allocating government contracts, which now comprised practically all contracts of any importance, and the restrictions on credits slowly led to the withering away of the small craftsmen. Furthermore, every encouragement was given to artisans' cooperatives which were, in essence, a return to the workshops of the early period of capitalism. These artisans' cooperatives with their methods of primitive mass production of utility goods were a complete denial of the essence of craftsmanship. The large-scale nationalizations, together with measures directly restricting private practice, almost eliminated the independent professional class.

185 X 466 Parallel with these measures, the powers of the Minister of Building to control labor were greatly increased. The threat of dismissal for political reasons, institutionalized by decree in June 1948 and extended in February 1949, was increased by the tendency to look upon failure to improve output as a political crime and sabotage. Repeated adjustments of the piece-rate system, competitions and special drives led to constant raising of the standard output rates and required an ever greater effort on the part of the ordinary worker to try to keep abreast and maintain the level of his earnings.

185 X 474 241 Rumors of the impending collectivization of agriculture were at first most emphatically denied by all the Communist spokesmen. Yet, in July 1948, the Communist party announced its intention to press the collectivization of agriculture on a "voluntary" basis because the inefficient small units - a large proportion of which were created by the Communist-sponsored Land Reform of 1945 - impeded progress in agriculture. Soon afterwards, administrative measures, a change in the tax system, and the widespread persecution of the kulaks, encouraged the "voluntary" process by eliminating the richer peasants who were the main opponents of the reform because they had most to lose through it. At the same time every kind of assistance, financial and other, was given to the new collective farms established on the Soviet model. But in spite of all efforts collectivization made little headway and, at the end of 1949, the total acreage farmed by collectives was less than 4 percent of the acreage under crops.

machinery for enforcing it is extant and there is no reason to suppose that, should the need arise, it would not be ruthlessly used. But there is a limit to the use of force and the more advanced the economy, the lower the limit. Sabotage could endanger the implementation of the Five Year Plan and even if it entailed risks for all concerned, growing desperation might lead to desperate acts. The stern measures to deter people from sabotage were reinforced in February 1950, and in the course of the year a series of decrees were aimed at tightening discipline, and "social trials" were resorted to in order to frighten the workers into obedience. All this leads one to suspect that whatever the economic improvements may be, the danger of sabotage and unrest is real.

The Situation at the End of the First Quarter of 1950

A report was issued by the National Planning Office but it gives meagre information. Nearly all results are given in the form of percentages based on the output in the first quarter of 1949 or the goal set for the first quarter of 1950, both of which are unknown.

Agriculture is dealt with rather summarily in the report. Performance in spring sowings, as expressed in percentages of the goals set, is uneven. As of 29 April plantings of alfalfa exceeded the mark by 61 percent, that of oats by 9 percent. Sunflower and potatoes were slightly below the goal, corn 18 percent below.

The acreage under crops of state farms and collective farms was given as 250,000 hectares and 224,000 hectares, respectively, which represents in the aggregate 8.5 percent of the acreage under crops. The number of tractor stations had increased to 275 by the end of March.

Mining and all industries, except rubber and clothing, exceeded the targets set for the quarter. But even in the two industries that lagged behind, the deficiency was slight and amounted to 1-2 percent only. Excess achievement ranged from 2 percent (power) to 27 percent (precision instruments). Metallurgy exceeded the goal by 11 percent, heavy engineering by 4 percent.

The percentages based on the output in the first quarter of 1949 are more instructive because they give some idea of the relative rate of progress as the total output in 1949 is known. Mining had a 27 percent increase to its credit, power one of 41 percent. In the manufacturing industry, clothing recorded the highest increase in output with 108 percent, food the lowest with

The Situation at the End of the Second Quarter of 1950

433 The second quarterly report of the National Planning Office reads very much like a stereotyped version of the first. Even the percentages showing achievement in comparison with the moving targets of the plan show a range of variation, that has now become familiar, of from 100 to 112 percent. The other basis used is output in the second quarter of 1949 and is not very enlightening because the exact values are not known.

In agriculture the acreage under cultivation was claimed to be in conformity with the plan, but the goals had not been published. In comparison with last year, the use of fertilizers increased by 50,270 tons. Prewar production (1938) was 45,000 tons but much of it was exported. Production in 1949 was not given directly but, on the basis of percentages given, was estimated to have amounted to 98,000 tons. Irrigated acreage, 26,000 hectares at the end of 1949, increased by another 5,400 hectares to well over 31,000 hectares. The number of tractor stations has increased to 356 as against 221 at the end of 1949. [471] The most striking event is the great increase in the acreage of state farms, which was given as 234 percent in one year, and that of the collective farms for which an increase of 413 percent was claimed. As the number of the latter increased only about half as fast, their average acreage must have increased considerably; other information indicates that the average acreage falls probably within the limits of 300-400 acres.

Mining and all industries exceeded their goals. In textiles, the excess output was a fraction of one percent, but in the manufacture of precision instruments it was 27 percent. Metallurgy and engineering had each 7 percent to their credit. In comparison with output in the second quarter of 1949, the manufacture of precision instruments heads the list with an excess output of 130 percent with clothing, 87 percent, second. Textiles showed the smallest relative increase, 23 percent.

The list of principal goods, the production of which is given, has become longer than in the first report but again no quantities are given, only percentages of the goals set and of actual output in the second quarter of 1949. In comparison with the corresponding period last year, output of coal was 18 percent, oils 2 percent, iron ore 25 percent greater. In manufactured goods the greatest increase was in the output of clothing, 251 percent. Apart from this item, producer goods keep showing the greater increases ranging from 114 percent in railway engines down to 105 percent in bricks.

9; Eppstein S-4 (no date) 1945 EC1 Hungary EC1

some fruits, especially peaches and apricots, excellent liqueurs are distilled. In recent years, largely under the pressure of military necessity, the cultivation of industrial crops has made much progress.

THE VINEYARDS. Wine is produced in almost all parts of Hungary, often in very small peasant vineyards and by rather primitive methods. It is said that one family in every four of the entire population owns a vineyard. After the wheat harvest, the vintage is the great month of Hungarian agriculture, when half the population is out of its houses, gathering the grapes and pressing them in the tiny whitewashed huts which each family owns in its vineyard, perhaps a mile or so out of the village. The finer wines, which are exported, are cultivated in larger vineyards owned by the Crown, monasteries, or big landed proprietors.

LIVESTOCK. Livestock was at one time even more important than wheat, which only in the last century replaced cattle as the chief produce. In recent years, stock-breeding has regained a good deal of its importance and Hungary has now a large population of cattle and swine. Hungarians are rather heavy meat-eaters, even the poorer classes consuming a lot of bacon and lard. There is also a big export trade in cattle and pigs, live and slaughtered, and in various animal products, such as hides and bacon. Horses are bred for draught purposes, and the finer breeds also for sport. Sheep are bred less extensively: Hungarian wool is not of high quality, and the population does not take kindly to mutton as a dish.

Poultry, including geese, are kept on a very ex-

9: Eppstein S-4 (no date) 1945 EC1 Hungary EC1

it is difficult to say, for the events of 1944 have deepened the consciousness, even among those who repudiated the excesses, of the difference between the two races, and the problem of finding jobs for the younger generation of non-Jews is not likely to have become easier.

LIFE OF INDUSTRIAL WORKERS. About a quarter of the population of Hungary is employed in industry. The term covers all industrial processes, down to the village smith or carpenter, and nearly one-half of the persons listed as 'industrial workers', are in fact artisans or home-workers or employed in very small concerns with perhaps only one or two assistants. The government has always been anxious to encourage this smaller industry, both as a means of relieving rural unemployment and as constituting a social, dependable, God-fearing element of the population.

The other and greater half are the factory workers, employed in larger concerns with a payroll of ten or more. The most important of them are the great Manfred Weiss munition and metallurgical factories on Csepel Island, south of Budapest. There is a big iron works, belonging to the State, at Diosgyör, another munitions factory at Gyor, and some sizeable textile factories in Budapest. Outside Pécs, there are local mines. All industry developed quickly after the outbreak of war, to meet the needs, not only of munitions, but of other supplies for the army.

The position of the industrial workers in Hungary is, on the whole a good deal more satisfactory than that of the workers in the villages. As in every

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

The "Billion Pengő Plan," officially known as the Five-Year Plan of 1938, was primarily a result of military considerations. Originally calling for an investment of one billion pengős, it was repeatedly revised upward until it reached 4.5 billion by 1943. Roughly three-fifths of the total funds were devoted to rearmament and to the heavy industries, while transportation and agriculture received one-fifth each. The plan was financed by a progressive capital levy and by government borrowing. It was carried out through the existing ministries by simply expanding their activities. A Ten-Year Plan for Agriculture calling for the investment of 100 million pengős annually was launched in 1942, but wartime dislocations prevented its realization.

By the spring of 1944 the power, aluminum, chemical, and oil industries had been considerably enlarged. The total Hungarian refining capacity was estimated as 3.5 million barrels annually before the territorial losses of 1920; as 1.5 million barrels in 1920; and was 3.2 million barrels in 1940. In contrast to this relatively modest development, by the spring of 1944, the total capacity had increased to more than 10 million barrels, only 710,000 of which were from refineries located in the temporarily recovered areas. The new plants at Pét and Szőny, which were built by the government within the framework of the Five-Year Plan of 1938, had a combined capacity of 3.6 million barrels; these plants alone considerably exceeded the total 1940 capacity.

During World War II numerous concessions were granted to German and Italian as well as domestic oil companies in the areas east of the Danube and in the recovered areas. These groups carried out extensive geophysical surveying and a few test wells were drilled. However, it was only in the Mura district, close to the Hungarian Zala fields that commercial discoveries were made. Small-scale production began in 1943. Two years later, in 1945, Yugoslavia recovered the district once more.

At the end of World War II the economy was once more at a standstill. In 1945 agricultural production did not reach one half of prewar production, while industrial output was only a fraction of that of 1938. Of 4,341 factories

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

727 433 [434] only 186 were working at over 70 percent of prewar capacity, while 1,109, or over 25 percent, were completely out of operation. It is estimated that even in 1946/47 the national income was only 65 percent that of 1938 and less than 50 percent that of 1943, the peak war year. The Hungarian economy as a whole, and especially the industrial sector, heavily concentrated in Budapest, was among those most seriously damaged in Europe.

[458] The Soviet occupation, heavy reparations payments, general political uncertainty, and a runaway inflation in 1946 made the task of reconstruction even more difficult.

728 471 648 According to the Potsdam agreement all Axis property, even that which had been forcibly taken over by the Germans during the war was handed over to the Soviet Union. Subsequently, new Soviet-Hungarian companies began to mushroom in manufacturing as well as in transportation, and it was at this time that the Hungarian-Soviet Oil Company, Maszovol, was organized.

727 315 [471] While the Zala fields had escaped major war damage they suffered by the wasteful practices engaged in under pressure from German and later Soviet military authorities (see Table VII).[1] After prolonged negotiations the MAORT properties (all areas west of the Danube) were returned to the American owners in 1946.

727 178 471 A land reform and the nationalization of industries "with monopolistic character" such as steel and coal were swiftly carried out after the war.

[565] Land reform, nationalization without compensation, and the inflation of 1946 largely destroyed the propertied classes, and in the chaotic conditions a downward leveling also affected the skilled workers.

[642] 727 185 [665] By mid-1947 the communists within the coalition government had virtually eliminated any possibility for non-communist government plans, and for all practical economic purposes the communists were in control. Dictated by the realities of the prevailing postwar conditions, certain

1 [Cf. page 88, category 116 -- Analyst]

THE OIL INDUSTRY IN THE HUNGARIAN ECONOMY

Operations in the oil fields had been little disturbed by the war, and in the immediate postwar period production was maintained at a relatively high level. The 1945 crude production of 656,000 tons (4,990,000 barrels) and the 1946 output of 675,000 tons (5,130,000 barrels) was exceeded only during the peak war years, and represented one of the few bright spots in the otherwise rather bleak economic picture. However, neither the owners of MAORT nor the Hungarian economy benefited very much from this production. In 1945-1946, the bulk of the crude went to the Red Army without payment, while in the following years, 1946-1948, much went to the Soviet Union and neighboring satellites as forced exports or as reparations. During this period the crude had to be delivered to the government at arbitrarily fixed prices.

In the spring of 1948, paralleling the second wave of nationalization, the directors of MAORT were tried for sabotage of the Three-Year Plan, and soon after the company was confiscated. Subsequently, MAORT was subdivided into several "National Enterprises." Crude production fell to 569,000 tons (4,324,000 barrels) in 1947 and fluctuated between 475,000 and 500,000 tons (3,610,000 and 3,800,000 barrels) during the following three years. As noted above, the targets set in the Three-Year Plan were not reached, and by 1949 the persistent crisis in the oil industry became one of the planners' major problems.

The old Zala fields were nearing depletion and could no longer continue the forced production records of wartime, while the expected new discoveries did not materialize. An acute shortage of drilling equipment, lack of skilled labor, and successive purges of management materially contributed to this failure.

In eastern Hungary, the German-held MANAT concession was handed over to Soviet ownership. A Soviet-Hungarian Oil Company, Maszovol, was organized in 1946. Extensive oil explorations were carried out but no commercial oil discoveries were made until the end of 1949.

Hungary's refineries, unlike her oil fields, were very severely damaged during the war. Refining capacity,

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1949. This was still about 15 percent below the 1943 figure.

511 If adjustments are made for inflation, heavy investments, and inventory increases—not to mention such unknown but very important negative factors as rearmament and unfavorable terms of trade with the Soviet Union—it is safe to state that the Hungarian standard of living in 1949 remained considerably below the 1938 level, not withstanding official claims to the contrary, and that goods actually available to consumers remained well below the prewar level.

185 471 The plan was "overfulfilled" in its political aspects. The nationalized sector reached 84 percent in transportation, 78 percent in industry, and 59 percent in distribution. In agriculture all forests became state property and the basis of the kolkhoz system was established.

The Five-Year Plan of 1950

185 As the speeded-up Three-Year Plan was nearing completion, late in 1949, the proposed outlines of a new plan were published. Originally 35 to 37 billion forints were mentioned, but by the time the plan was passed by Parliament the figures had been revised upward to 50.9 billion forints. The Five-Year Plan of 1950, as the second communist plan was officially designated, was overhauled once more in May 1951 to conform more closely to the Five-Year Plan of the Soviet Union and to the various plans of the neighboring satellite nations.

185 454 This revision upped the total investment to 85 billion forints. These repeated increases in the total volume of investment were partly due to a progressing inflation, and partly to the increases actually needed for the fulfillment of the revised plan. According to calculations made by the United Nations Economic Commission for Europe, total investment (in constant January 1947 forints) amounted to 2 billion or 10.6 percent of the national income in 1947/48; 4.47 billion or 17.9 percent in 1949;

EXPLORATIONS AND DISCOVERIES

315 [655] The law[1] gave the government the right to grant concessions to [471] individuals or private companies for limited areas and limited time periods.

In the years following, several Hungarian and foreign companies operated under this law. The first was the Hungarian Carpathian Petroleum Company, Ltd. (Magyar Kárpáti Petroleum R.T.), which acquired the Iza Valley concession. In 1911 its exploratory well No. 4 struck oil at 1,506 feet in Săcel (Izaszacsal). For some time about 100 barrels of oil flowed daily from this well. Additional wells were drilled in the vicinity, some resulting in similar oil flows.

Explorations ceased from the time the Treaty of Trianon awarded the area to Romania in 1920, and were renewed after 1940, when Hungary temporarily recovered Northern Transylvania.

Transylvanian Gas Fields

315 In 1909 a very important gas field was discovered at Sărmaş (Sármás) in Transylvania. Gas seepages and salt water springs in the vicinity prompted a detailed geological survey. However, the first well, drilled southeast of Sărmaş as a result of this survey, sought not hydrocarbons, but potash, needed in Hungary for fertilizer.

No potash was found, but the well penetrated several sand strata that yielded salt water and some gas. A stratum between 1,509 and 1,542 feet produced water containing 7 percent salt. At 2,031 feet this well was abandoned and a second started at Sărmaş, still in search of potash. Important gas shows were noticed very soon. At 300 feet a strong gas blow handicapped the drilling. At 525 feet the well blew out, and it was with considerable difficulty that drilling was resumed. At 990 feet the strong blowing of gas between the drill stem and casing made further progress practically impossible. The well could not be closed since it had been drilled for potash, and therefore the casings were not cemented, nor were the individual gas sands sealed. For two years it blew about 25 million cubic feet of gas

[1] [i.e. the oil resources law of 1911 — Analyst]

EXPLORATIONS AND DISCOVERIES

315

barrels in 1950. This would make the total yield of the field some 92,500 barrels to the end of 1950.

Production at Bükkszék is continued at a financial loss. If the profit motive were decisive, extractive operations would have ended years ago.

Other government wells in the northern part of the Great Hungarian Plain were all failures, though many good oil shows were encountered.

Western Hungary: Standard Oil Concession, 1933-1948

[471]

It has been noted that the Anglo-Persian affiliate's departure from western Hungary was occasioned more by inflation than by disillusionment with the area's oil potential. In 1933 the government granted a new five-year concession to all of Hungary west of the Danube—some eight million acres.

Concessionaire was an American firm, the European Gas and Electric Company (Eurogasco). Incorporated in Delaware, this firm began negotiating in 1931 for oil and natural gas concessions in Czechoslovakia, Austria, Yugoslavia, and Hungary. In 1933 the Standard Oil Company (N.J.) acquired an interest in Eurogasco; by 1939 it owned more than 90 percent of the company's stock.

In an agreement signed 8 June 1933 and approved by the Hungarian Parliament 28 June 1933, Eurogasco pledged to spend at least $300,000 prospecting its concession and to sink at least eight wells.[12] Hungary's royalty was to be 15 percent on oil and 12 percent on natural gas.[13]

The agreement was extended for two years on 10 June 1937; and when Eurogasco struck oil an exploiting company, the Hungarian-American Oil Industrial Company (Magyar-Amerikai Olajipari R.T.), known as MAORT, obtained a forty-year concession to the region on 6 July 1938. Ten years later MAORT was expropriated by Hungary's communist government.[14]

[12] [for footnote, cf. cat. 116, 31 p. 53 -- Analyst]
[13] [cf cat. 116, p. 53 for source -- Analyst]

EXPLORATIONS AND DISCOVERIES

both may prove to be of practical importance. 315

The Velence Mountains east of the Bakony range are of granite and probably a remainder of the Variscan system. To their southeast, gravity and magnetic anomalies are rather irregular and characteristic of intra-basement masses. This indicates relatively shallow crystalline rocks of varying density and magnetic susceptibility, rather than sedimentary structures. Gravity anomalies indicate a relatively narrow trough between the mountains and the Danube. It is probably filled with sediments. Gravity maxima at Baracska and south of Adony may indicate productive structures. [133]

Southeastern Hungary: German Concession, 1940-1944

In 1940 the Hungarian government granted a German concern the oil and gas concession of the southeast quarter of Hungary—east of the Danube and roughly south of parallel 47. The concessionaire, the Hungarian-German Mineral Oil Company (Magyar-Német Ásványolajipari Társaság R.T., or MANAT), was owned in equal parts by four German firms: Gewerkschaft Elwerath, Hannover; Deutsche Erdöl AG, Berlin; Preussische Bewerks-und Hütten AG, Berlin; and Wintershall AG, Kassel. The last-mentioned firm was in charge of explorations. [471]

The MANAT contract was similar to MAORT's but contained an added paragraph extending the concession to cover certain areas held by Hungary before World War I, if and when Hungary recovered them. MANAT's concession was subsequently extended under this paragraph to include two parts of Yugoslavia obtained by Hungary in 1941: the area (bordered by the Tisza and Drava rivers and by the Trianon boundary), including Bachka east of the Danube and Baranya west of the Danube; and a strip straddling the Mura River west of Zala County.

The German government subsidized exploratory drilling to the extent of RM 2,979,487.74 in the original concession and RM 1,975,182.13 in the Yugoslav areas.

RECENT DEVELOPMENTS

Western Hungary

315 [727]

Due to the rapid collapse of the German defense system in March 1945, the Zala fields were relatively intact when the Red Army reached them. The gasoline and repressuring plants at Lispe and Lovászi, however, damaged by air raids, had not been completely repaired, and the pipelines were also broken in several places. The Red Army immediately began reconstruction using forced labor.

In August 1945 the MAORT properties were theoretically returned to their American owners, but the Russians did not permit the American directors to return to Hungary until several months later.

In spite of strong protests by the American Military Mission in Hungary, and later by the State Department, the Russians retained control of the fields until February 1947, when the Hungarian peace treaty was signed, using MAORT oil without paying for it; further, they removed trucks, drilling equipment, and even telephone wires from the oil fields.

Since all German assets in Hungary were ceded to Russia under the Potsdam agreement, they also sought strenuously, though unsuccessfully, to establish that Germans had obtained an interest in MAORT during the war. They also sought to bankrupt the company by fixing ridiculously low prices in violation of the 1933 Eurogasco contract, paragraph 2 of which provided that failing agreement between the government and the company (as to the price of the oil), "the selling price of the above-mentioned crude oil shall be the market price corresponding to the [471].

RECENT DEVELOPMENTS

315 - natural level of prices at the time."[1] Between June 1945 and July 1946, the artificially fixed prices ranged from eighty-one cents to less than one cent per barrel. It is significant to note that Article 28 of the contract provided for cancellation of the concession in the event of bankruptcy

This effort also failed, however, and with the signing of the peace treaty Russian military representatives disappeared from the oil fields and MAORT resumed near-normal operations.

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In May 1947 the Communist Party, backed by the Red Army, ousted the non-communist government and took over the country. A three-year plan was announced for all branches of industry. The government purged most of the reliable MAORT employees early in 1948, on various pretexts, and in May it appointed a communist "controller" for the company. All Hungarian-owned industries had been nationalized without compensation in April. The following September two American directors of MAORT were imprisoned on charges of sabotaging the Three-Year Plan, along with the former Hungarian manager and key employees. The Americans were released after having been forced to sign confessions; the Hungarians were given long prison sentences. In September 1948, MAORT was confiscated.

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The government allowed some technical directors to retain their posts but appointed a number of new directors to manage what had been MAORT operations. One of this group's first moves was to put a battalion of Hungarian secret police on the company payroll, to guard the property and to watch the employees. In 1949 most company offices were moved from Budapest to Nagykanizsa, about 20 miles from the Zala fields. The new directors also fixed long hours at low wages for the employees. In 1950 monthly wages for common laborers were 300 forints; office employees, 400-800 forints; skilled laborers and drivers, 500-900 forints; section head and technicians 800-1600 forints; engineers, 1,200-3,200 forints. Even at the official exchange rate of 12 forints per dollar these were low wages, and the actual rate in 1950 was nearer 36 forints per dollar. Moreover, up to 30 percent

[1] [for footnote, cf cat. 116, p. 73 -- Analyst]

RECENT DEVELOPMENTS

315 sistent rumors of the presence of Romanian oil experts both at the oil fields at Lispe and at Nagykanizsa; a recent eyewitness account describes the arrest of six Romanian oil experts at Lispe in December 1952 and the closing of the "Romanian Office" at Nagykanizsa in January 1953.

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687 The internal security measures taken at the different nationalized units of the oil industry became increasingly severe. Confidential reports invariably refer to the heavy secret police supervision of personnel; to armed guards at the wells and along the pipelines; and to arrests, demotions, and deportations for mechanical and other failures.

The proximity of Yugoslavia and Austria to the Transdanubian oil area creates further problems for the communist authorities, necessitating the employment of additional heavy military guards, the screening of all workers for reliability, and an elaborate pass system. There have been border incidents; and the fact that a large part of their oil has to be extracted under the guns of Tito's militia seems to make the Budapest government particularly unhappy.[2] 1

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315 Some recent and as yet unconfirmed reports state that the Hungarian government entered into a barter agreement with Soviet authorities according to which the formerly MAORT concession (the areas west of the Danube) and the National Transdanubian Oil Company (also formerly MAORT) were merged into Maszovol. As its part of the bargain the Soviet Union returned sixty-nine former German enterprises to the Hungarian government. This "generous" act of the Soviet Union was reported by Budapest newspapers as having taken place on 30 September 1952, but no mention was made of the oil deal.

If this information proves to be true, the entire Hungarian oil industry is now directly controlled in theory as well as in practice by a Soviet oil combinat in Moscow.

315 A discovery reported at Surd, south of Nagykanizsa, on the Inke structure, has been referred to above. There

1 [Cf. cat. 116, p. 73 for source -- Analyst]

APPENDIX

The Great New Tasks of Our Petroleum Industry

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Note: This article was written by an important Hungarian government official and appeared in the Budapest daily Szabad Nép (31 January 1952, p. 6), the central organ of the Hungarian Communist Party. It represents the official communist version of the Hungarian oil industry's past, throws some light on its present status and problems, and gives some indication of its future development. The article is reproduced below in its entirety.

000 One of the most important raw materials of our economy is petroleum. Oil is needed to keep the thousands upon thousands of our industrial machines humming; oil is needed so that the tractors of our machine stations can help our working peasantry; oil is needed for the running of cars, trucks, and buses; oil and natural gas are also two of the most important basic raw materials of the chemical industry.

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471 Oil is not an old branch of industry in Hungary. Before the 1930's we had no oil mining. In 1933 the Horthy regime with its infamous Law No. XIX illegally transferred the right of oil exploration and production in Transdanubia to Standard Oil, an American company. This was a good deal for the American capitalists; the government of the gentlemen's regime gave them preferential treatment and opportunities for predatory exploitation. Zala County, rich in oil resources but economically and culturally backward was an especially favorable area for reaping extra profits. During the Second World War, Hitler and the American stockholders were in happy partnership. Oil production for the benefit of the fascist war machine was constantly

[p. 94 is blank]

APPENDIX

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[471] increased in the MAORT fields until it reached its peak in 1943-44. All this became clear as day during the memorable MAORT sabotage trial.

The American capitalist monopoly continued its anti-people policies in the Hungarian oil fields even after the liberation. It directed production in a manner that gave the least possible oil to popular-democratic Hungary. However, finally we uncovered and brought to justice the male-factors of MAORT, and the State took over the direction of our oil production.

After the nationalization we were still confronted with serious difficulties. Because the robber-economy of the Americans made such demands on the technical equipment the installations were in a rundown condition when we took over. Our difficulties were further increased by the fact that the American imperialists tenaciously tried to maintain their position by leaving their agents in countless sectors of oil production and even in the top leadership of the industry. Under the direction of the party and with the effective cooperation of the workers we unmasked the hostile elements one after the other. Crude production was also handicapped for a long time by the lack of equipment and materials and by the fact that Hungarian experts had no experience in the socialist management of the oil industry.

[648] During the past year, 1951, the oil industry came to a turning point. Here too it was the Soviet Union that gave us help.

At the invitation of our party and our government Soviet experts with great specialized knowledge and a wealth of experience came to our homeland. Their advice led to magnificent results.

The first task was to start oil exploration, without which there can be no expansion of the industry. This was necessary because the damage-doers in American pay had completely stopped exploration.

The armed forces of the great Soviet Uunion liberated our country from the yoke of the German fascists, crushed the power of the great landowners and capitalists who were ever hostile to the people, and opened the road of democratic progress to our working people. Having acceded to power in hard struggles fought against the masters and defenders of the old order, the Hungarian working class, in alliance with the working peasantry and with the generous assistance of the Soviet Union, rebuilt our war-ravaged country. Led by the experiences of the socialist revolution of 1919 and supported by the Soviet Union, our people began to lay down the foundations of socialism and now our country is advancing towards socialism along the road of a people's democracy. The already realized achievements of this struggle and this constructive work, the fundamental changes effected in the economic and social structure of our country, are embodied in the Constitution of the Hungarian People's Republic, which also indicates the direction of our further advance.

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SECTION ONE

The Hungarian People's Republic

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Article 1.

Hungary is a People's Republic.

Article 2.

1) The Hungarian People's Republic is a state of workers and working peasants.

2) In the Hungarian People's Republic all power belongs to the working people. The workers of town and country exercise their power through their elected representatives who are responsible and accountable to the people.

Article 3.

642 471 565 The Hungarian People's Republic defends the power and liberty of the Hungarian working people and the independence of the country; it opposes every form of the exploitation of man by man and organizes the forces of society for socialist construction. In the Hungarian People's Republic the close alliance of the workers and working peasantry is made a reality under the leadership of the working class.

SECTION TWO

The Social Structure.

Article 4.

642 471 1) In the Hungarian People's Republic the bulk of the means of production is owned, as public property, by the state, by public bodies or by co-operative organisations. Means of production may also be privately owned.

642 471 565 2) In the Hungarian People's Republic the force directing the national economy is the state power of the people. The working people gradually dislodge the capitalist elements and consistently build up a socialist system of economy.

Article 5.

642 471 The economic life of the Hungarian People's Republic is determined by a state national-economic plan. Basing itself on the publicly owned enterprises, the state banking system and the agricultural machine stations, the state directs and controls the national economy with the object of expanding the forces of production, increasing the national wealth, raising to an ever higher level the material and cultural standards of the working people and strengthening the defences of the country.

Article 6.

The land, its mineral resources, the forests, the waters, the natural sources of power, the mines, the large industrial enterprises, the means of communication such as railways, road, water and air transports, the banks, the postal, telegraph and telephone services, the wireless, the state-sponsored agricultural enterprises

such as state farms, machine stations, irrigation works and the like, are the property of the state and of public bodies as trustees for the whole people. All foreign and all wholesale trade is carried on by state enterprises, all other trade is under state supervision. 642* 471

Article 7.

1) The Hungarian People's Republic recognizes and guarantees the right of the working peasants to the land and regards it as its duty to assist the socialist development of agriculture by establishing state farms and machine stations and giving every support to productive co-operative societies based on voluntary association and joint work. 642* 423 474

2) The state recognizes and supports every genuine co-operative movement of the workers that is directed against exploitation.

Article 8.

1) The constitution recognizes and protects all property acquired by labour. 642* 421

2) Private property and private enterprise must not be such as to run counter to the public interest.

3) The constitution guarantees the right of inheritance.

Article 9.

1) In the Hungarian People's Republic labour is the base of the social order. 642* 461

2) Every able-bodied citizen has the right, and the duty to work to the best of his ability and is bound in honour to do so.

3) By their labour, by participation in work competitions, by tightening labour discipline and improving working methods, the workers serve the cause of socialist construction.

4) The Hungarian People's Republic strives to apply in practice the socialist principle: "From each according to his ability, to each according to his work."

SECTION THREE

The Highest Organs of State Authority.

Article 10.

1) The highest organ of state authority in the Hungarian People's Republic is Parliament. 642* 646

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425 A drastic land reform was undoubtedly the most significant step
471 toward the economic reconstruction of Hungary. This reform was carried out during the period of political truce which characterized the first few months of coalition rule. An executive decree was issued in March 1945 aimed at the confiscation of all lands owned by individuals of a pro-National Socialist record, and at the expropriation of all estates larger than two hundred acres. Farm lands exceeding this size were seized in their entirety without official compensation. Former owners could keep their land only if they were farmers themselves, if they fought against the Nazis or in recognition of special service in the national resistance movement. Farm animals and all forms of agricultural equipment were taken with the estate; land obtained in this manner was divided among small landowners and landless peasants. It was also stated that newly created estates may not exceed one hundred acres.[38]

The objective of this decree was obviously a thoroughgoing redistribution of landed property, a governmental effort "to realize through the abolishment of large estates the old dreams of the Hungarian Peasant, handing over to him his due share of the soil."[39] As the pre-war semi-feudal social structure showed many signs of crumbling, this post-war reform was timely indeed. It compares in some respects favorably with the limited agrarian reform of 1920 which, forced through a reluctant Parliament by István Szabó's early Smallholders Party, left large and medium-sized estates amounting to well over
525 fifty-percent of the land. There were close to three million landless
423 peasants and "dwarf land-holders" who depended for a livelihood mainly on casual labor and payments in kind. The large number of agricultural workers with no definite or fixed employment kept wages low and living conditions almost insufferable. The vast reserve of agricultural manpower contributed both to the unsteadiness of employment and to widespread social discontent; this agrarian problem led

38 This governmental decree was subsequently confirmed by Parliament and included in Law IX of 1946, officially published in May, 1946 as the Land Settlements and Conclusion of the Land Reform Act. The Act also states that "the land of persons who fled to Germany after October 15, 1944, and did not return therefrom by October 31, 1945, will without exception be confiscated." (par. 17.) For further details on economic policies and administrative procedures, Cf. "Chiffres Sur le Ravage et la Résurrection de la Hongrie," *Cahiers de la Nouvelle Hongrie*, Budapest, 1946, p. 17 *et seq.* In English language, cf. László Faragó, "Private Property and Nationalization," *New Hungary*, Dec. 20, 1946, Vol. I No. 7, p. 3.

39 Cf. The Preamble to the decree and the ensuing Act which states that "the system of latifundia will be destroyed in its foundations by the reform of landed property." Law IX–1946.

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to political maladjustments and eventually to the rise and success of extremist political movements.

Set against this unhappy social background the land reform gains added significance. The redistribution of land involved about seven million acres and some 525,000 persons benefitted from it. A few exceptional land owners were allowed to keep as much as 400 acres, but on the whole, the large feudal estates so characteristic of the country disappeared in a few months.[40] But there is also a negative aspect. Although the land reform succeeded in breaking the power of feudal latifundia, it did not solve all of Hungary's agricultural problems. The new beneficiaries are directly responsible for a considerable decrease in national production for many of them have been in desperate need of agricultural equipment and implements. The machine industry could not supply this equipment as it has suffered more severely than any other major industry of the country. It will certainly be long before agriculture recovers and in the meantime, a full-fledged reconstruction of national industry is the principal post-war problem, as well as the key to recovery.

The three year plan officially announced in January 1947 is centered around the overall objective of restoring industry to the 1938 level of production. This comprehensive plan was prepared by special experts of the Social Democratic and Communist Parties with the cooperation of two ex-Hungarian professors of economics, the Communist expert Jenö Varga of Moscow and Nicholas Káldor of London. Administrative details of this national plan closely parallel the Czech, Polish and Yugoslav projects, which propose to reach the economic levels of the last peace-time year by intensive national effort of two to five years of agricultural and industrial reconstruction. Two features are prominent in the Hungarian three year plan; the forced nationalization of mines and industry, and the establishment of new labor unions as a means of broadening the workers' participation in the country's economic life.

40 The land reform measure itself was hastily drawn up and carried out, yet it was the only way to induce peasants to undertake any cultivation in 1945. Consequently by 1946 over 90% of the agricultural land was sown. Cf. "Prospects for Agriculture, Danubian Outlook," *The Economist*, Jan. 4, 1947, pp. 6-7. The land reform was at least as much of a political and social measure as an economic move. As such it had a number of further implications; "a radical change as this cannot be carried out without jolts and jerks. Only after all available lands have been distributed will it be possible to appraise the economic and social consequences." R. Vambery, *Hungary—To Be or Not To Be*, pp. 177-178. For an official English language account cf. "Land Reforms and Reconstruction," Istvan Szava, *New Hungarian Domestic Policy*, pp. 29-32.

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425 Coal mines were first on the list in the nationalization of resources. 471 The nationalization of coal mines was logically followed by all other [316] sources of energy and by power plants, many of which were owned by foreign corporations. In this respect the same aggressively anti-foreign methods were used that proved so successful in Rumania and Czechoslovakia. Next step in this cycle was the temporary nationalization of heavy industries for a period of at least six years. According to the brief decree of Minister of Industry, Antal Bán, the State will assume direct control of all industries through a Council of Directors which will replace the former system of capitalist owners and boards of directors managing individual corporations.[41] The new Council will serve as the employer of at least 100,000 individual workers and will reach all major executive decisions. The Minister of Industry will, in exceptional cases, serve as the final forum of appeal. Industrial profits will go to the State; if there are losses of operation the State will bear them.

Similar decrees of nationalization have recently been drafted for banks, for all forms of mining and for firms engaged in the distribution of agricultural products. Simultaneously the entire field of domestic and foreign trade was brought under the control and jurisdiction of a new Supreme Economic Council, headed by a leading member of the Communist Party, Zoltán Vas. The Council consists of the members of a new political-managerial class, replacing the earlier group of business leaders who became the victims of Fascist persecution.[42]

467 The three year plan has also provided for the creation of numerous labor unions. Since 1944 the railwaymen, post-office workers, heavy industrial workers and even government employees have formed unions, all of them in branches of industrial and public life where they had been strictly forbidden under earlier regimes. Today the unions are Communist controlled; as early as January 1946 their Communist members joined forces with the left-wing Socialists and as a majority acquired all the key-posts. The Smallholders have only scant representation. The Trade Union Council which is a group of leaders

41 Cf. *Magyar Nemzet*, Nov. 24, 1946, p. 3, for the first official announcement of the government's action, under the heading "Forced Nationalization of Hungary's Heavy Industry."

42 "The National Socialists arrested and later deported *all the leaders of Jewish political and business life* and journalists, together with the Hungarian democratic and anti-Fascist politicians." *Nazi Conspiracy and Aggression*, U. S. Government Publication (Washington, D. C., 1947), Vol. I, Chap. XI, p. 955. (Italics mine.)

1/1 [cf. category 116, pp. 317 --- Analyst]

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As a result of the Regency's efforts to effect a measure of "land reform" by purchasing large estates and parceling them out to small farmers, the Catholic Church became the principal landowner in the country. It held one-eighteenth of all the arable soil, and a great variety of other tangible assets. As a rule the Church treated its tenants well—so well, indeed, that many of them viewed the possibility of "land reform" with misgiving. One could, indeed, argue that such a "reform" might well prove to be an enterprise of questionable value. Perhaps a peasant could live better by working on a large estate managed in accordance with the principles of just labor legislation than on a small plot left to his own devices. The fact remained that there was a strong demand for ownership of the soil by those who tilled it. At any rate, a thoughtful, forward-looking churchman could not view the situation with equanimity. Although the Church estates produced revenue which was needed for the upkeep of numerous religious, cultural, and charitable institutions, a strong Catholic social reform movement insisted upon a wider distribution of property. A solution was not found. Either there ought to have been "land reform" in the sense indicated, or laws should have been enacted to insure a decent livelihood to the farm worker. Nevertheless one must note that Kalot, the organization of Catholic peasant youth founded by an indefatigable Jesuit, was one of the strongest associations of the kind in Europe. It had more than 200,000 members when Hitler marched into Hungary, and its educational program was directed with intelligence and moral fervor.

Perhaps the major reason for the Church's loss of appeal to poorer citizens in many parts of Europe was not Karl Marx or Charles Darwin, not Voltaire or Hegel, though they and others undoubtedly had a good deal to do with it. Something far more tragic was the matter. The poor man drifted away because of the Church's natural but too exclusive concern